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Publications  
(60)

F-51

F-51

ISSN 1180-4386

## Legislative Assembly of Ontario

Third Intersession, 35th Parliament

## Assemblée législative de l'Ontario

Troisième intersession, 35<sup>e</sup> législature

# Official Report of Debates (Hansard)

Monday 6 February 1995

# Journal des débats (Hansard)

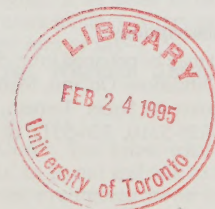
Lundi 6 février 1995

**Standing committee on  
finance and economic affairs**

**Comité permanent des finances  
et des affaires économiques**

Pre-budget consultations

Consultations prébudgétaires



Chair: Paul R. Johnson  
Clerk: Lynn Mellor

Président : Paul R. Johnson  
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## LEGISLATIVE ASSEMBLY OF ONTARIO

## ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON  
FINANCE AND ECONOMIC AFFAIRSCOMITÉ PERMANENT DES FINANCES  
ET DES AFFAIRES ÉCONOMIQUES

Monday 6 February 1995

Lundi 6 février 1995

*The committee met at 1004 in room 151.*

## PRE-BUDGET CONSULTATIONS

**The Chair (Mr Paul R. Johnson):** It has been brought to my attention that the members of the committee are anxious to get things under way on this very cold February 6, and there are some matters with respect to the committee generally that we should deal with.

I understand that our first presenter isn't here yet; however, there are a couple of things that we should go over. One is with respect to our researchers and the reporting done after the committee and the record that will be kept with respect to the notes—other than Hansard, of course, but the report that we're going to make back to the committee by the researchers. I just want to know if the members had any concerns that they wanted to raise with respect to the way in which the researchers report their findings to us and how they develop the ultimate document that we present.

**Mr Gerry Phillips (Scarborough-Agincourt):** I don't.

**The Chair:** Because from time to time it has been brought to the attention of the Chair at least that sometimes they would like to see more detail in the researchers' reports and sometimes people are happy. Before we start, I just wanted to be sure that we were all in agreement.

**Mr Kimble Sutherland (Oxford):** If I could just make a brief comment here, I think we've developed a pretty standard format for these reports on the pre-budget hearings and I would sense by the fact that there aren't a lot of comments that people would appreciate as much as possible going through that. Obviously, each year some different themes develop and there will have to be some note of that in the report.

**The Chair:** Thank you. Ms Campbell, you wanted to make a comment with respect to that?

**Ms Elaine Campbell:** We will have a proposed outline ready for the committee before instructions are provided a week from this Thursday.

**The Chair:** That's very good. Thank you very much.

**Mr Phillips:** On a different matter, I see the Provincial Auditor is scheduled to be here for half an hour today and I wonder if we shouldn't allow perhaps another 15 minutes just in case there's more discussion that we should have and a half-hour may be not enough time. I guess the alternative is to schedule him later to come back, but that may not be the most efficient use of his time. I wonder if I mightn't move that if need be, we extend the discussion with the auditor to 12:15 today.

**Mr Sutherland:** Mr Chair, the committee had agreed that the economic forecasters coming in would be given 45 minutes, and then obviously a special amount of time would be given to the Minister of Finance, and then of course Finance officials, a couple of hours granted to them, and the rest of the presenters would be provided 30 minutes. Those were the terms that were agreed upon.

**The Chair:** And therefore, Mr Sutherland, you are suggesting?

**Mr Sutherland:** I guess what I'm indicating is that since those were the terms agreed upon, I'm not supportive of Mr Phillips's suggestion.

**Mr Gary Carr (Oakville South):** Notwithstanding what has been agreed, as you know, this committee can agree to do anything it wants. It is unprecedented that an auditor has taken this step, and I think giving him 15 extra minutes isn't going to cut into anybody's time. It's at a lunch-hour, which means we can forgo a little bit of lunch or do it a little bit faster. I think it is important that we have the time, given the fact that he is coming forward. For us to say to the Provincial Auditor, "No, you can't have an extra 15 minutes before the committee of the Legislature looking at a very important issue," is absolutely a disgrace.

**Mr Larry O'Connor (Durham-York):** Did he ask for it?

**Mr Carr:** We should, if need be, in terms of questions from this committee, be able to give him more time. He may come and take five minutes, but I suspect that we could take the remainder of the 45 minutes or hour asking questions. I know I could take the full time doing it myself to him and I think we should. I think 15 minutes is very little extra time and I would hope the government would reconsider because, as I said, it would be a disgrace if he came in here and we would not give him 15 extra minutes. To try to play politics with this and not allow him to say—

**Mr Jim Wiseman (Durham West):** You already started.

*Interjections.*

**Mr Carr:** You know what? You have one opportunity, folks, to go out and talk to the Provincial Auditor and you're not even going to do that, and you come in here and you en masse, en bloc, are going to vote against giving 15 extra minutes to the auditor.

*Interjections.*

**The Chair:** Order. Mr Carr—

**Mr Carr:** I thought I had the floor.



**The Chair:** I just want to bring to the attention of the committee that as we continue to debate this, it would become evident that as our time slips by, inevitably we'll be already at some time after noon.

1010

**Mr Carr:** Is Mr de Bever here?

**The Chair:** Yes, he is. I'd like to resolve this before we continue.

**Mr Carr:** Well, obviously it's resolved: They don't want it. They've got the votes.

**The Chair:** I'm in the hands of the committee. If there is a motion, Mr Phillips, and—

**Mr Carr:** Let's take a vote.

**Mr Phillips:** Yes, I moved it and I just think that if we don't do it, it raises more questions than you really want to. There are alternatives if that doesn't happen that are less helpful to the auditor, I think.

**The Chair:** Thank you. All those in favour of Mr Phillips's motion? Mr Johnson.

**Mr David Johnson (Don Mills):** It's obvious that we have the time today. Looking at this afternoon, the last scheduled deputant is at 2 o'clock. So looking at the course of the day, unless there's somebody else scheduled after that that I'm not—

**The Chair:** We've got the ministry officials for the afternoon.

**Mr Carr:** We don't bump anybody at 11:30 is what he's saying.

**Mr David Johnson:** I'm sure it'll be most interesting to listen to the ministry officials for about four hours this afternoon. That will, I'm sure, be a great source of amusement. Their viewpoints are obviously more supportive of the government, perhaps it's perceived, than the Provincial Auditor, but anybody looking at the schedule today would see that there's lots of time.

**The Chair:** Thank you, Mr Johnson.

**Mr David Johnson:** The Provincial Auditor, Mr Chair, is a very special circumstance. I think we could all agree on that.

**The Chair:** And indeed it's unprecedented that he's come before this committee for this. Mr Kwinter.

**Mr Monte Kwinter (Wilson Heights):** Mr Chairman, can I make a suggestion? We're talking hypothetically. We don't even know whether Mr Peters is going to take the half-hour, so can we wait until he makes his presentation and at that time, if we feel we want to extend it, we'd make a motion at that time?

**Mr Carr:** Good idea.

**The Chair:** Is everybody agreeable to that? Yes. Then Mr Phillips will withdraw his motion? Agreed? Okay.

**Mr Sutherland:** The point is, if the decision is going to be made, it's going to be made. I don't think we're going to make—I won't be changing my position anyway in terms of what is going to occur. So if we're dealing with procedural issues or a few things to clarify right now, let's just do it now and be done with it.

**Mrs Elinor Caplan (Oriole):** What are you afraid of, Kimble?

**Mr Sutherland:** I'm not afraid of anything. Let's do it now.

**The Chair:** In that case, I think it's clear that I'd like to know if it's the agreement of the committee that we extend Mr Peters's time beyond half an hour and I'd like to see a show of hands.

All those in favour of extending his time beyond half an hour? All those opposed? It would appear that Mr Peters has half an hour.

Mr Sutherland, you raised another issue.

**Mr Sutherland:** I just wanted to clarify that, for this afternoon, the Finance minister is here from 1 to 2 and then the Ministry of Finance officials are here from 2 to 4.

**The Chair:** That's how I understand it.

**Mr Sutherland:** Okay. Thank you.

**Mr Phillips:** Again, I assume we are dealing with something fairly fundamental. If we're right in the middle of some questions—I mean, last year they came back later.

**The Chair:** The Chair has always been flexible at the end of question period for extra time.

**Mr Phillips:** Say that at noon.

#### ONTARIO TEACHERS' PENSION PLAN BOARD

**The Chair:** At this time I would like to call forward Mr Leo de Bever, vice-president, research and economics, Ontario Teachers' Pension Plan Board. Please make yourself comfortable. You have 45 minutes within which to make your presentation and field questions, and whenever you are ready, you may proceed.

**Mr Leo de Bever:** Good morning. I think the easiest way to paint you a picture of where I think this economy is and where it's going to go is to turn to the graphics page in my five-page pamphlet that was just handed out. I'd like to give you the headlines on that and then go into the details that are indicated in the text.

The top graph on the right shows you what GDP has been doing and what I think it will do over the next couple of years. I don't have to tell you that we've gone through some pretty bad times, perhaps worse than they should have been, but in any case we came through them.

Recovery has been very slow, about half as slow as it was last time. We're currently experiencing growth at a running rate of around 4%. It's going to slow down to around 3% to 3.5% for Canada. Ontario will do slightly better and Canada will do slightly better than the United States. That again is a typical profile that you find at this stage in the cycle. Canada is a provider of cyclical goods into the US market. Ontario is the province that's most closely tied to the US, so as a result you find that Ontario does slightly better than Canada, which in turn does slightly better than the United States.

That's the good news. I think past 1996 you might run into some head winds, for reasons that I'll get into later.

On the top left you see two things. One, inflation has been pretty low. Even if you take out 1.5% on the CPI due to tobacco tax cuts, 1.5% inflation is fairly minimal. I think that's going to pick up over the next two years and probably reach around 3% by the end of 1996.



You see quite a difference between producer prices and consumer prices. A lot of that is exchange rate driven. The rest of it is cyclically driven, meaning that during good times producer prices tend to run ahead of CPI inflation; during bad times the reverse is true.

I think that the PPI is starting to crest. What that means is that the impact on profits from rising prices is probably going to crest over the next year as well. Profits were hit harder than in any recession since the 1930s. They're now recovering, almost 70% of normal. During 1995 they'll probably get close to normal.

The reason I'm mentioning that is that it has a direct impact on the middle-right picture, the employment growth picture. Statistically, historically, people are not hiring when they don't make any money. The fact that they are making money and that the money is getting better means that employment growth will start to pick up. We'll have probably a 3% average employment growth for this year in Canada. That also means you're going to draw some people into the labour force, so the unemployment rate is not going to drop as fast as that number would suggest, because your labour force is growing as well.

Again, note the rapid drop in employment during the 1991 recession. I think there's something structurally wrong with Canada, and if policy should do one thing, it's to try to dampen a recurrence of that during the next recession.

The interest rate picture has been front and centre over the last few weeks, particularly after the Mexico affair. It shows how fragile the financial environment is and how nervous people are about what's going on in Canada, not just fiscally but also in relation to Quebec. Historically again, crises surrounding Quebec have caused Canadian rates to rise as much as 200 basis points. I could see that happen again. That is, again, relative to US rates.

The only good thing is that I see US rates close to peaking, which means that any increase in Canadian rates from that source should be minimal after the middle of this year. The impact on interest rates on the long end from political crises will be smaller than for short rates. Again, that's because of the interaction between interest rates and the exchange rate.

The fundamental problem with Canada is on the bottom-left chart there. We're running a current account deficit of about 3% of GDP. I don't see that improving a great deal, even though we're doing better on trade, because the interest on the debt that we've run up over the last 10 years tends to offset all or part of the improvement we're making on the trade side.

To put it in perspective, if we were to solve this particular problem, we would have to run a \$50-billion trade surplus, mostly with the United States. We've never done it. I could see the political problems of doing that being quite significant. Even though you could say, "Well, we're paying you Americans most of the interest we're shipping out," it still, I think, is going to be a formidable task.

The dollar has been weak, probably will stay weak. There's a lot of feeling that after the Quebec issue gets

settled, presumably with a No vote, the dollar would rebound sharply. There may be periods during this year that the Canadian dollar will rebound. I don't think it will be very sharply. After the federal budget you might see a bit of a positive impact, almost no matter what happens in that budget, because there's been a fair amount of discounting of what might be in the budget. But then, as we get into the referendum campaign, I think the dollar will start to have its problems again.

Those are the headlines; that is the picture I'd like you to have in mind when I go through the reasons why some of these things are likely to transpire.

First of all, why are we not going to have more than two years of strong growth after 1995, say? Why are we going to have a recession? Well, there really is no objective reason for it that any economist could point to as saying, "It has to happen at that point." The fact is, business cycles usually don't last more than five years. This one has been pretty tame so it might last a bit longer, but the US is already fairly close to capacity and I think within two years they'll run into some problems and we will probably get dragged along with that. Now, we could get a second leg, but for that you need something very extraordinary. In 1986 we almost had a recession. We didn't get one because oil prices collapsed, which was pretty bad for taxes in Alberta, but it was pretty good for everyone else and it kept the recovery going for a while.

The expanding economy is giving you some cyclical improvement in your fiscals. I'm sure that all governments, provincially and federally, are going to take credit for that, but just be aware that it's temporary, that it's not structural. There is a very severe underlying problem that remains, and if you want to be in a position to help the weak in the society during the next recession, I think fiscal reform should be right on the top of your agenda.

#### 1020

I understand you're going to have the auditor in later on today. I think trying to convince someone else of a reality that does not exist is one way of going; trying to delude yourself is something else. I strongly urge you to take the auditor's view of the way the books look because to almost anyone in the financial community that is a more accurate statement of the way things are going. In fact, it probably still understates how badly things are in the sense that there are lots of contingent and unrecorded liabilities that we have run up in various pension programs, in the WCB and a number of other quasi-government institutions, liabilities that we have essentially put the government name to without putting numbers on the books to reflect that.

That's why I think that with the situation the way it is, and given that we're running out of time in terms of fiscal reform, by the second half of the next government's term there will again be this clash between declining revenues and increasing pressures from the usual countercyclical programs on the government's budget.

I would be very surprised if the provincial debt were under \$115 billion by the year 2000. I think we're right now around \$90 billion, so that would mean we're adding



another \$25 billion over the next five years on average, even if you assume that we make some headway in terms of reducing spending or finding some other sources of revenue.

We've already gone into why Canada can grow faster than the US at this stage. I'd like to focus for a moment on a paradox that seems to exist between the way workers look at this economy and the way producers look at it. If you talk to an employer, he will argue that his costs are still incredibly high. If you talk to a worker, he will tell you that his standard of living hasn't gone up in the last 15 years. The fact is that both are right.

If you look at what we have been selling our products for in world markets relative to the prices of the things we like to buy domestically, the difference is astronomical. It's been consistent and it has been happening since 1975. Basically, what's been happening is that what we are selling in world markets and what we're buying from the world in world markets has not been going up in price nearly as fast as the increase in domestic prices. As a result, we have had imposed on us a decline in our standard of living that most of us have not taken account of.

In other words, we don't control the fact that relative prices have shifted in world markets. For reasons beyond our control the rest of the world has gotten better at making the kinds of things we are making and as a result the prices for those goods are going down. The implications are inescapable. The implication is that we will have to work much harder than we have done before to generate the same amount of revenue that we want to spend domestically.

There's nothing you're going to be able to do about it. You can't abrogate free trade. You can't pretend that the world doesn't exist. This is just a fact of life, just like in the 1950s, 1960s and 1970s we were lucky enough to have the reverse happen to us: Commodity prices and manufactured goods prices were going in our favour.

To show you how traumatic it is, if you sort of, as a cartoon, think of Ontario exporting cars and consuming restaurant meals and haircuts, it now takes twice as many cars to produce the equivalent bundle of haircuts and restaurant meals that we used to buy in 1975. That's a very, very dramatic shift in relative terms. It affects our standard of living, and to not take account of that in the way we think about how much we can afford in various places is just not realistic.

I'd like to turn to the four sources of risk that I can see—at the last page of my text—in the next year that you should be aware of.

We've already alluded to the fact that the disturbances coming from the US are likely to get weaker this year. The Federal Reserve just moved 50 basis points. They may go up another 50 basis points some time this year, but I think what is going to materialize is that people are going to realize that the inflation risk is probably overstated, just like it was in 1985. In 1984, we saw inflation picking up. There was a fear that inflation would go from 3%, 4%, 5%, 6% back to 8% and 10%. It didn't happen, and after rising three points, interest rates dropped three points. I'm not sure the decline is going to be quite as

strong as it was then, but I think you're going to see at least some stabilization, barring some of the domestic factors that could impact on interest rates.

I would like to point out to you that this behaviour is not because they're trying to be simply cantankerous. The Bank of Canada has done some research that shows that indicators of inflation are very unreliable eight months out. As a central bank you have to be vigilant, and as a result you sometimes are shooting at targets that later on turn out not to be there. There are some reasons to be watchful, particularly in the United States, but in the end I think that inflation in the US will probably stabilize around 3% to 4%.

On the federal budget side domestically, that's obviously the next source of disturbance in financial markets, and the reason I'm focusing on that is that really is the most direct impact you as a government have on consumers. The government borrows at the cheapest rate, the lowest rate of anyone in the economy. If for whatever reason government causes its debt to be priced at a very high interest rate, then the rest of us, in our mortgages and consumer loans, are going to have to go along for the ride. On a \$200,000 mortgage, a 1% hike—simple arithmetic—is \$2,000 after taxes. That's quite a bit of an implicit tax hike, or not a tax hike but at least a burden on consumers.

The problem with the federal budget and financial markets is that no one sees 3% as a solution. It shows you how far we've moved the goalpost. There's no economic theory I can think of that says that 3% of GDP as a deficit target is adequate. We should be targeting for cyclical balance. That's what we used to do up until 1975.

Again, the federal cyclical improvement in finances will be short-lived and I think the direction of change will have to be some form of decentralization and some paring down of commitments to the future. The same thing is going for Ontario. I know what's going to happen when the feds are going to release their budget. I think there's going to be a hue and cry in Ontario along the line that the feds are offloading on the provinces. Before that reaction comes out of the government chambers, I would like to say that no economist would blame you for the offloading. If you take the view that there is only one Ontario taxpayer and that this taxpayer really doesn't care whether he gets dinged by the feds or by the province, in that case having the feds offload on the provinces in itself is not a problem or is not a change in his situation. What might be a change is the reason why the feds may be offloading.

A lot of economists believe that particularly education and health care are probably better administered at the provincial level. If that's the case, decentralization in those areas is actually a good thing, and although it's an inconvenience from the standpoint of the provincial Treasurer, from the standpoint of overall efficiency of the system and burden on the taxpayer it could be a very positive development. So I don't think that any offloading that results should necessarily be criticized without looking at the reasons behind it.

Of course, the biggest thing in the financial markets



this year is going to be the Quebec referendum, whether we like it or not. The thing I would warn about this time is that the assumption in financial markets in particular is that ultimately this thing is going to get defeated. There is no plan B. There has really been no coherent discussion of what we do if there is a Yes vote and I'm really concerned that the risk of a Yes vote in financial markets is at this point much bigger than most people assume simply because they haven't thought about the possibility.

We know that last time in the referendum the francophone vote was 50-50 and as a result, the referendum was voted on mostly because of the immigrant and allophone vote. If that doesn't happen this time, we haven't really considered the implications of that.

**1030**

Now, we know that there is a possibility of negotiating separation without upheaval. Belgium split itself into two. The reason you haven't heard about it is probably already one indication of how well they did it in terms of negotiating things beforehand. They also had the advantage that they didn't have a current account deficit, which meant they didn't have to go to market to finance their quite substantial financial problems.

What all of this means is that at the end of this year, if the referendum gets voted down, you'll be left with interest rates that probably will be below where we are now. If that isn't the case, they might be substantially higher. That's one more reason why as a government and as a province we should pay much more attention than we have so far to what we may want to do if this were to go the wrong way.

I think that's the gist of the comments I'd like to make. My understanding is that you prefer to have a lot of questions, so let's do it that way.

**The Chair:** Thank you very much for your presentation. We have about seven minutes per caucus. We'll start with the Liberal caucus.

**Mr Phillips:** Just to sort of make sure I've got the fundamentals from you, your feeling is that the GDP in Ontario for the next couple of years could be at around the 4% rate?

**Dr de Bever:** It might be pushing that. Depending on how fast the US goes down, I think 3.5% to 4% is quite possible. We could get lucky and get even higher, but if you were to do a planning scenario, 4% is a good, robust—well, at 4% I think your risk would be even. It could be higher; it could be lower.

**Mr Phillips:** Interest rates: You feel the US interest rates may begin to back down a little bit, but Canadian interest rates continuing to be high and the spread therefore widening versus the US?

**Dr de Bever:** At least in the first half of the year, assuming we're going to have a Quebec referendum in, say, June or somewhere thereabouts, I would think spreads, particularly on the short end of the yield on the maturity spectrum, would widen out to probably over 200. They're currently somewhere around 160, 170. It's easy to see that widening considerably to over 200.

This comes back to, why can't we have rates closer to

the US? We could if we didn't have the political uncertainty, if we didn't have quite the severity of the fiscal problems that we have. We do have lower inflation risk. By rights, we should have interest rates that are fairly close to the US. I think the main reason it isn't happening is that a lot of financial experts still feel queasy about the potential of currency depreciation, which would detract from those higher yields.

**Mr Phillips:** The US inflation rate you think may run at 3% to 4%, and the Canadian inflation rate somewhat lower than that?

**Dr de Bever:** Right.

**Mr Phillips:** So our real interest rates in Canada will be—

**Dr de Bever:** Very high.

**Mr Phillips:** What premium versus the US is your feeling?

**Dr de Bever:** If you look at the real rates using—that is, by the way, an exercise you can't do. You can't look at 10-year rates and use the current inflation differential. But our rates would be one or two points higher than in the US, minimum, in real terms, and most of the pressure from that will come from two sources: the ongoing need to go into international credit markets—we have already seen how that's starting to become more constraining. We used to be able to do that in Canadian dollars. Because of the currency risk, we now do it mostly in yen, US dollars, Dutch guilders and Deutsche marks. I think the problem there, that consistent current account deficit I was talking to you about that's been around since 1982, is starting to impact on our ability to finance externally and that's what's driving the rates.

**Mr Kwinter:** In your written presentation you talk about the fact that the "party platforms published to date are unrealistic." Could you comment on that?

**Dr de Bever:** Yes. By the way, I feel like I'm sort of walking between two solitudes. In the financial community there is this notion that no politician has any financial acumen, and in the political community there seems to be a feeling that we're all money-grubbers in the financial community and that we don't have any heart for people.

When I look at the budgets, I think the government's budget ignores the fact that we probably can't sustain the kind of deficits that are being projected there. We just can't keep on doing this. If you're worried about interest rates, that's one reason you should be worried about it.

If you look at The Common Sense Revolution, I tried to make sense of that. I'm told by someone within the party who thinks I'm wrong that I just don't have enough data, but from what I've been able to gather, and in talking to some of the people involved in it, I think it understates tremendously the amount of real sacrifice that will be needed to get to the kind of bottom line they're talking about. I'm not saying we shouldn't do it; I'm just saying we should be a bit more up front about discussing what is needed to get the government back to a normal level, and this is where I think we have a ratcheting problem.

In 1990, we went from close to zero budget to \$10 billion, in one year. If we're going to bring that down by

\$10 billion, there has to be some real pain somewhere. Even if you do that over three or four years, it's not insignificant. I guess my view, with the information I have on how this thing was put together, is that it understates the amount of pain that's needed to get to it. At the very minimum, I would forget about a tax cut. I would say that in the current environment you probably shouldn't raise taxes, that's probably political suicide, but to talk about a tax cut when you're running an \$11-billion deficit I think is just not responsible.

**The Chair:** You have just a little less than two minutes, if you'd like to go ahead, Mr Kwinter.

**Mr Kwinter:** Mr de Bever, very quickly, because we only have a couple of minutes left, I notice that when you talk about the economy and you talk about it growing because exports and manufacturing will keep it growing to the 4% GDP that you're talking about, in discussions I've had and readings I've made, the automotive sector seems to be in a very, very difficult position in North America. How do you think that's going to impact, particularly in Ontario, which is so dependent on the automotive sector for its export-generating funds?

**Dr de Bever:** This is why this period gives us this false sense of security, because the automotive sector is one of the strongest sectors in this economy right now. It operates in a very cyclical market, as you point out, but it also is essentially a replacement market. In other words, the reason the market is strong now is that for four or five years people haven't been buying any cars, so now that they have a bit more income the car market is reasonably strong. But most of the growth in this market is going to occur in Mexico, because that's where people are still increasing their standard of living quite rapidly and that's where the number of cars per household is relatively low.

So even in North America we're going to be in a disadvantageous position. But it's not the only industry where we have that problem. I would argue that the financial sector is in a similar strait, that there's going to be a lot of consolidation and a lot of collapsing of entities as the banks start to go into the insurance industry, for instance, and that there's going to be a lot of emphasis on generating efficiencies. All that means is that for a centre like Toronto it's probably going to imply job losses over time, because the industry will be able to do with fewer people what it's doing with now.

On the manufacturing end, by the way, and this is true for both Canada and the United States, and I think I've said it in this forum before, to count on job growth in manufacturing over the long haul as a driver of employment growth is just not possible. The United States had 24 million manufacturing jobs in 1970 and it has roughly 24 million now. We had 1.8 million manufacturing jobs in 1970, and barring some blips from the recovery, it's going to be 1.8 million or 1.7 million again at the end of this cycle.

The employment growth in this economy is coming from services. If you want standard-of-living increases with employment growth, the only arithmetic that makes sense is that you're going to have to find a way to grow that service sector and at the same time increase its

efficiency. If you're just growing jobs without improving the efficiency of that sector, you're not going to increase your standard of living, because you can't pay out more than you're producing. So if you're producing the same per worker year after year after year, you can't count on a standard-of-living increase. Given that the bulk of the economy is now services, that means the service economy will have to carry a bigger share of the improvement in productivity that's going to give us the standard-of-living increases.

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**Mr David Johnson:** Mr de Bever, you've indicated that you expect economic growth to be in the 3% to 3.5% range.

**Dr de Bever:** For Canada.

**Mr David Johnson:** For Canada; a tad higher for Ontario.

**Dr de Bever:** Right.

**Mr David Johnson:** Over the next couple of years?

**Dr de Bever:** Yes.

**Mr David Johnson:** And then the United States economy perhaps may turn sluggish in, what, 1997, something like that?

**Dr de Bever:** Well, it probably will already start to slow down by the middle of this year, but 1996-97, yes. They have much less excess capacity than we do.

**Mr David Johnson:** Let's say 1997-98: What sort of economic growth would you forecast for Ontario?

**Dr de Bever:** Well, you're starting to look at 2%, and maybe by 1999 and 2000 no growth or recession.

**Mr David Johnson:** So over the next four or five years, an average of 3% growth would be a pretty good target, would it?

**Dr de Bever:** It's a pretty good target.

**Mr David Johnson:** In Ontario?

**Dr de Bever:** Right.

**Mr David Johnson:** The government's forecast is about 4.3%, as I can recollect, for economic growth over that period of time. In your view, what would be the likelihood of that being achieved?

**Dr de Bever:** Well, we could get lucky, but I wouldn't want to use it as a planning scenario.

**Mr David Johnson:** What would your view be on a forecast, an approach, that relied on an increase in economic growth of closer to 5%?

**Dr de Bever:** Well, it's happened before.

**Mr David Johnson:** So if you were to assign a probability to that—

**Dr de Bever:** If I were in your shoes and had to do the responsible thing from a government point of view, I would not count on 5% growth. I'd go with something like 3%.

**Mr David Johnson:** So if you were in our shoes and running for an election, for example, and you were to have to put out to the people of Ontario an economic forecast, a plan for the future, you would not put out a plan that had economic growth in excess of, what, 4%, 4.5%?



**Dr de Bever:** I think 4%, you're pushing the envelope, if you're doing it for more than—

**Mr David Johnson:** At 4.5% you're getting into the ridiculous?

**Dr de Bever:** Never say never, but it's not what's happened in the past.

**Mr David Johnson:** So if a party was to put forward a plan that relied on balancing the budget purely on the basis of growth of—

**Dr de Bever:** You can't do it.

**Mr David Johnson:** —in excess of 4%, it can't be done?

**Dr de Bever:** No.

**Mr David Johnson:** It wouldn't have a chance?

**Dr de Bever:** I don't think so, no.

**Mr David Johnson:** I agree with you. I think you're absolutely right. So you would agree that expenditure reductions are necessary to balance the budget.

**Dr de Bever:** They are, and again, coming back to part of my presentation, I think we got into the wrong frame of mind around 1975, and when you look at a lot of economic indicators, that's where it seems to have happened. We still had in our minds 4% or 5% consistent annual rates of growth till infinity. Because of some of the factors I've pointed out, the relative price shift in particular, that just isn't quite feasible. Or even if the growth is feasible, the standard-of-living increase implied in it and the ability to finance the promises that were put in place around 1975 just isn't feasible. So you're going to have to go to the electorate and say: "Look, this is all very nice, but hey, we were wrong. We can't sustain these kinds of programs. We're going to have to cut back and now it's all a matter of what's the best way to do it."

**Mr David Johnson:** You've obviously read The Common Sense Revolution, because that's exactly what it says. In terms of your estimation of what sort of expenditure reductions would be required over the course—let's say to the year 2000. Keeping in mind you've forecast perhaps over that period of time average economic growth of 3%, what sort of expenditure reductions would be required to balance the budget, in your estimate?

**Dr de Bever:** Well, it depends on what you do on the tax side. If you start with—

**Mr David Johnson:** Well, okay, let's just look at that as something. Can we agree that the residents of Ontario are taxed at least as high as if not higher than most jurisdictions in North America?

**Dr de Bever:** Well, it depends on what part of the range you're looking at, but particularly in the middle to high end of the income scale, yes.

**Mr David Johnson:** So a reasonable assumption would be certainly not to put it higher, but to make Ontario more competitive, that would have to mean a downward adjustment in taxes. Wouldn't that make Ontario more competitive?

**Dr de Bever:** It would make you more competitive but it would also make it more difficult to achieve your balanced budget objectives. In other words, you couldn't

do it to any significant degree without jeopardizing your target of deficit stability, deficit reduction—deficit removal, if you wish. I think you'd probably have to start with spending cuts and then see how they come along, how quickly they actually transpire, because I think there's also a timing problem, and this is no matter what political stripe the next government is going to have.

I think The Common Sense Revolution underestimates the inertia in the system, the amount of time it takes to get certain things going and the time it takes for them to have an impact on the books. If you started on day one, which you probably won't be able to do, it probably will take you a year to a year and a half before you see any significant impact on government finance.

**Mr David Johnson:** Do you believe it's possible to balance the budget in the province of Ontario by the year 2000?

**Dr de Bever:** It is, but you're going to have to be brutal with the population and say: "Look, we're going to have to do it. It's going to cost all of us. There's no sense in denying we can solve the problem on somebody else's back. Right now, we're borrowing \$1,000 a head on your behalf every year that we don't have. If you don't want us to do that, then you're going to have to tell us or help us think where you want us to cut." That's a big amount of money. If you do that and then you get the population on side, you can do it.

I'm just a little nervous when I read The Common Sense Revolution. It seems all so matter of fact and so easy and I don't think it is. I have some concerns, frankly, about how the growth assumptions and the revenue assumptions and the spending assumptions tie together. I'm willing to be convinced, but from talking to the persons allegedly having a big part in this and talking to the people at the U of T who allegedly have vetted this program, I'm a little nervous that they're more willing to make the assumption that things would go the right way.

**Mr David Johnson:** If you talk to the government, Mr de Bever, it will say that it has cut program spending and it's been tough, that we've had the social contract, and with the kind of cuts in spending that we've had over the last year or two and with economic growth, the budget can be balanced in four or five years. If you look at the actual fact, total spending has gone up each and every year.

Is it your view that with the kind of approach, the kind of "spending constraints" that we've had over the last couple of years, the budget could possibly be balanced by the year 2000?

**Dr de Bever:** With the approach that they're taking in the budget?

**Mr David Johnson:** Yes.

**Dr de Bever:** I don't think so. Again, it comes back to a question of ways and means. I find it very difficult to justify that a province like Ontario, which is the richest province in one of the richest countries in the world, has to rely on other people's savings, meaning outside of Canada, to maintain its standard of living. Most of the reason it's doing that is because within the fiscal environment we're not able to tax for the spending that we do.

I think there's just no ethical justification for continuing to do that.

Once you reach that point and you start saying, "Okay, what can we get away with, what can we remove?" you come in for some tough choices and I'm not denying that they are tough choices. But just because something in principle is good, it doesn't mean that you necessarily can afford it. There are all sorts of things that I desire because I find them implicitly good, but I'm not buying them because I have a budget constraint. Governments can sometimes ignore budget constraints, but they can't do it for 10 years in a row.

**The Chair:** Thank you. We've got to go on to the government.

**Mrs Karen Haslam (Perth):** I've been listening very carefully. I always like to look at finances in a more pragmatic way, looking at how it affects people and looking at the consumers out there. I've kind of starred a few things that you said.

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One of them is that you said that the "slow recovery" is "directly linked to the severity of pre-1990 excesses," and that's the word I'd like to deal with, when you looked at excesses pre-1990. On the next page you talked about, "Canada consistently consumes 3% more than it produces." You say there is excess consumption.

All of those things seem to show that we're going to have to change our standard of living and I wondered if that's where you see us going, lowering everybody's standard of living in order to reach what you call a balanced budget. I have another question later. I wondered if you'd comment on that particularly.

**Dr de Bever:** Well, first of all, we are not entitled to a standard of living; we earn it, okay? What we've done is essentially elevated our standard of living by 3% by consistently borrowing \$30 billion a year out of other people's savings.

Now, there are lots of people in the world, lots of nations in the world, that have fiscal problems like we do. There are very few nations in the world that have both the fiscal problems we do and also the shortage of national savings. For instance, again, Belgium: Belgium has the same kind of political environment we have—you know, the fighting over the constitution—and it has a big fiscal problem. Its debt is even worse than ours, but it borrows internally, because internally there's enough savings to cover the foibles of government, if you wish. We don't have that luxury. Basically, we're not saving enough. In other words, we're not saving enough to offset that excess public consumption.

**Mrs Haslam:** By "we," are you saying that the consumer is not putting enough away in savings? Is that what you mean?

**Dr de Bever:** Well, consumers, by American standards, save a lot more than they do down there. But when you look at the aggregate, what business saves and what individuals save, it's not enough to make up for the dissaving of government, the deficits of government. That's basically our problem. Between the feds and the provinces, we're running, on a good day, \$50 billion in

deficits. It's probably more than that. And about \$30 billion of that is borrowed abroad, so only \$20 billion of it is covered by a transfer of domestic savings from the individual and the corporate sector to the government sector.

**Mrs Haslam:** That brings me to what you were just commenting on in the—you were saying that "party platforms published to date are unrealistic." The Tories are talking about a 30% reduction to overall ministries, 20% in some cases, a balanced budget in four years—unrealistic. The Liberals are promising a tax reduction—unrealistic. We have forecast a reduction of our deficit by 30% and a balanced budget by 1998—unrealistic.

What is being realistic? Would it be more realistic to extend the time and keep the grade going down, which is what we've started, bringing the deficit down on a slow grade? Would it be more realistic to say that we could reach it in 10 years? Would that be a more realistic way of looking at the economy and how we can bring that about?

**Dr de Bever:** If you did it over 10 years, you'd be adding another \$50 billion, roughly—I have to do my quick arithmetic, but I think about \$50 billion—to the provincial debt. That would substantially increase the ratio of provincial debt to GDP. It probably would cost us more in the interest rate we'd pay on the provincial debt.

**Mrs Haslam:** So the shorter time is more realistic. And is it about educating the public; is it about—you're saying what we've said is unrealistic. I'm asking you what would be realistic.

**Dr de Bever:** What I see as the fundamental problem, and this is a problem with democracy, I suppose, is that there are inconsistent expectations out there.

**Mrs Haslam:** Yes.

**Dr de Bever:** When politicians go out on the campaign trail, they always promise better tomorrows, more of this and more of that. The fact is, you can't do that unless your economy grows to finance all of that. If you want to force people back, that's not nearly as attractive a way to go on a campaign trail, but that's the reality. You need the support of almost any you can get your hands on to say, "Look, we do have to cut." If you listen to a politician who promises you the moon, he can't be telling the truth, because the money isn't there. You're going to have to educate people to the fact that they're going to be willing to take a cut in government services somewhere. You can't do it all through waste or fraud.

**Mrs Haslam:** No, I agree, and my concern, like yours, is the brutality to the population and just where that line is, but—

**Dr de Bever:** But there's a tradeoff: Is the brutality now or later? If you want to be a government by the year 2000, when, say, the next recession rolls around, and be in a position to help the poor, the weak and so on instead of being glorified debt managers, you have to take measures now. If you don't, you will be looking over your shoulder with every dollar you spend about how financial markets are going to take it, because the higher that debt level goes, the more nervous they will become.



**Mrs Haslam:** I think my colleague has a question.

**The Chair:** We are very short on time. Mr Wiseman.

**Mr Wiseman:** With all that's in the media, I'm getting just a little bit confused on what is driving the interest rates. In the United States, the federal open market committee met on January 31 and decided to raise the interest rates by 50 basis points, and maybe they'll do it again in the next little while. The reason that they're doing it is because they want to lower the number of people who are working in the United States. That's their primary reason. They believe that their non-accelerating inflation rate of unemployment should be around 6.5% of the workforce out of work. We have Paul Martin, who is going around the country saying, "Isn't the Federal Reserve doing a wonderful thing putting all these people out of work and curbing inflation?"

**Dr de Bever:** I don't think that's a direct Paul Martin quote, is it?

**Mr Wiseman:** It's almost exact; it was in the week-end—and then we have Thiessen, who's also praising the Federal Reserve and being allowed to get away with it, saying that Canada's unemployment rate should be around 9% unemployment. How are we ever going to get out?

You said earlier that the target that they aim for they often miss. But they don't miss them at all. The target that they hit is the workers of this country who are laid off and put out of work so that the inflation rate can be brought down. That's been the policy since 1975 under both the Liberal and the Tory governments.

**Dr de Bever:** Let me play a devil's advocate view and look at the other side. In all this discussion about monetary policy, there seems to be no role for individual responsibility, okay? What tends to happen on the individual side and on the worker side and on the company side is that when recoveries get into their mature stage they start miscalculating how far they can push things. That's how the jobs get lost. It's not that the Fed has some nefarious pleasure in throwing people out of work; it's that it's well shown that if you let inflation become imbedded, ultimately you don't gain any jobs out of that.

**Mr Wiseman:** But if you look at our economy in Canada right now, our capacity for production is still way lower than it is in the United States.

**Dr de Bever:** That's right.

**Mr Wiseman:** We can still grow in a non-inflationary way in terms of our productivity and we can still employ an awful lot more people before we get to what the monitors would call an inflationary situation. So why are we pushing our interest rates through the ceiling to 8% or something like that when the Fed's interest rates are still I think around—oh, what are they?—5.5% or 6% and driving it on the pretext that you're doing it to curb inflation, when inflation doesn't exist by your very own numbers?

**Dr de Bever:** I think the reason our rates are rising, aside from the political and fiscal situation, is that we are a small country next to a big one. That's just a fact of life, okay? So our spreads have to be positive for the

political and fiscal reasons relative to the US. If people had confidence in our currency, in our politics and in our fiscal policy, our rates probably would be close to those of the US; I'm not sure they can over any period of time be significantly lower.

But the other part is that part of the reason you're not getting the employment growth that the US is getting is that when you look at Canada and the United States our labour market has been much slower to adjust to the recession than theirs. If you look at why business is trying to avoid hiring, it's exactly that: Labour costs are still, by their calculation, very high. So you have a choice: You can have a lot of people unemployed and high wages or, if we had been smarter in 1989 and 1990, not taken that last 5% raise, we'd have 2% more employment at a somewhat lower wage.

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**Mr Wiseman:** My last—

**The Chair:** I'm sorry, our time has expired. I want to thank Mr de Bever for making his presentation before the committee this morning.

#### ROYAL BANK OF CANADA

**The Chair:** The next presentation this morning is by the Royal Bank, Mr John McCallum, senior vice-president and chief economist, and Carlos Leitao, economist.

**Mr John McCallum:** It's a pleasure to be here. I think you all have this document that was passed around. I'll take certainly no more than 15 minutes to briefly go through it, and then we'd be happy to answer any questions.

I'd like to begin with how we see the Canadian and Ontario economies evolving over the next little while, and then go on to the questions of first the federal finances and then the Ontario finances.

Basically, we're quite optimistic about the next couple of years in the Canadian economy, but not without certain caveats. As you can see from the first page, we think inflation's likely to stay low, we think interest rates may be close to their peak but with some possible nervousness leading up to the federal budget and the referendum, and we think the dollar may be close to its low but with some similar nervousness for the same reasons.

But there are three major caveats attached to that rather rosy outlook: the first, that Paul Martin produces a credible budget, that he at least meets his deficit targets; the second, that there's no major change in Canada's political arrangements; and the third is that the US economy achieves that elusive goal of a soft landing, slowing down but not too much and not too little, just right. I'll come to them, particularly the first and the third assumptions, later on, but those are the three key points that underlie our forecast.

If you turn the page, you see that we're suggesting that Canadian economic growth will stay strong this year but that it will slow down in 1996, primarily as US growth slows down quite significantly. We think that the Federal Reserve's tightening is going to have an effect; there's already some evidence that it's having some effect. We think the US growth rate in 1996 will slow down to a

level just below 2%, so that's pretty slow, and that Canada will slow down not as much because we have certain fundamentals propelling our economy forward, but still slowed down compared with 1995. I might say that Ontario tends to be more cyclical, more dependent on the US economy than the rest of the country, so that while we don't have a precise forecast for Ontario, we'd say it's likely to be close to the Canadian average but perhaps more sensitive to a slowdown in the US.

As has been the case in the last couple of years, we think that this expansion, albeit moderating, will be led by exports. You can see there's been a lot of progress in bringing down Canada's current account balance. For Ontario, cars are key, and you can see that North American light vehicle production we think will be high in 1995 but gradually coming down, but still remaining relatively strong over the next two or three years.

Housing investment we think will be relatively weak largely because of these higher interest rates. Business investment has been leading the expansion along with exports, propelled in part by the low dollar, which makes us a low-cost producer and highly competitive, propelled also by higher profits and high levels of investment confidence. So the expansion will continue to be led, in our opinion, by exports and investment, with government clearly exerting a drag, particularly at the federal level, as we expect expenditures will come down.

On the one hand, strong employment growth should bolster consumer confidence, and that's positive. On the other hand, real incomes have been growing relatively slowly and household debt burden is quite significant. On balance, we think consumers will not lead the recovery, but they will continue to increase their expenditures at a moderate rate.

All of this implies some continuing increase in employment. You can see on page 6 what I've said before, that Ontario tends to be more volatile than the rest of the country, that employment grows faster during the boom and comes down faster during the downturn. You can see that in those employment numbers for Ontario and the rest of Canada. But for both Ontario and the rest of Canada we see some relief in terms of the unemployment rate continuing to come down, albeit not at a very vigorous pace.

One advantage Canada has over the United States is that inflation is essentially a non-problem. We expect it to remain a non-problem over the next couple of years, well within the Bank of Canada's target range.

Interest rates: Subject to those assumptions I made at the beginning, we see the three-month treasury bill rates coming down over the next couple of years. We think that if we can get over these hurdles of the national unity and the budget situation, we should have declining spreads between Canada and the US because our inflation is lower, our economy is at a weaker phase of the business cycle. You can see there's been a trend since 1990 of a decline in those spreads. So we see rates coming down moderately even though there will be some increase in rates in the US because they are at a very different phase of the business cycle than we are with inflationary pressures, which really don't exist in Canada.

In terms of the dollar, the positives, as we say here, include low inflation, improved competitiveness and, by any long-term measure, the Canadian dollar's undervalued. In part, that's why our exports have been booming so much. We've become one of the lowest-cost places to produce in the western world. If you travel abroad, you'll discover that Canada is a relatively low-cost place and the direction of transborder shopping seems to have reversed in some cases with Americans coming here. In a sense, that's great for our exports and for jobs. It's not so good for our living standards. We think that once we clear these problems in the next six months or so, if we do clear them, then we should see a tendency for the Canadian dollar to move upwards to the mid-70s, let us say. That will reduce our competitive position but not by an unbearable amount because we're starting at a very low-cost position today.

We see, as I said before, the US economy slowing. We see some increase in inflation in the United States which will induce some further tightening by the Federal Reserve, perhaps another 100 basis points as from where rates are today. We think that will cause this slowing down of growth in the United States and that this will be relatively successful in the sense that it will be a pre-emptive attack on inflation, the Federal's slow growth, as has been often the pattern in the postwar period, tipping the economy into recession. But that's a delicate act. History doesn't inspire great confidence in soft landings. So it is a risk in the forecast that the Fed might overdo it and lead to a sharper downturn in the United States.

Let me turn now to the fiscal issues on the last page, beginning with the federal case because it's coming sooner, I assume.

We think it's extremely important that Paul Martin should at least appease the markets, if not please the markets. I think in order to appease the markets, he will at least have to put concrete evidence in place that he's meeting his targets and that this is based on realistic assumptions and not rose-coloured spectacle assumptions. I have every confidence that he will do that. I don't have inside information, but from listening to people, reading the paper, I think the public is in the mood to accept these things, whereas the public wouldn't have been some time ago, and so I have confidence that he will at least do that.

I think to really please the markets and to set us on a path to lower interest rates, he'd have to go further. By that, I mean set in place a set of credible policies to take us beyond 3% of GDP deficit in 1996-97, but towards a balanced budget some years after that. Whether he'll do that, I don't know.

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If I may turn now to Ontario, Ontario's fiscal plan, as you know, calls for the total budgetary deficit to fall from \$10.2 billion to \$6.3 million in 1996-97 and \$4.2 billion in 1997-98. Now, we know that it's extremely difficult to bring deficits under control, obviously, but we think for a number of reasons that this plan is a bit too optimistic. The first point on that I'd mention is interest rates.

We're not really in a good place to criticize on this point because we were too optimistic on interest rates in



October, federal Finance was too optimistic in October, and I think Ontario assumptions were made even earlier, but clearly the interest rate assumptions look too low today and so an adjustment would have to be made. We think the interest rates should be maybe 200 basis points higher than assumed. We've made some very rough estimate of what that might do to the deficit situation in 1995-96 and 1996-97.

The other thing is that we don't think it's realistic to assume 4.3% per annum growth of GDP more or less forever, or at least until 1998. Our own forecast would call for something closer to 3%, and we wrote that before I heard Mr Johnson. It's a pure coincidence that he said something similar. Great minds think alike; fools seldom differ.

In any event, we don't know when the next recession will be, but history suggests that there will be a recession and this recovery has been going for some length of time already, so I think from the point of view of what you might call a prudent government, one should assume a number less than 4.3. If one assumes the number 3, then our rough calculation suggests that the deficit in 1996-97, taking into account the interest rate and the slower growth, might be something like \$9 billion instead of \$6.3 billion. That's a very rough number, but that's the sort of order of magnitude that we calculated.

The other point I'd make is that other provinces, some of them under much less favourable circumstances than Ontario, like Saskatchewan, have made much more substantial progress in getting deficits down. I think it's important to say that this doesn't have to be an ideological issue. Saskatchewan has an NDP government and emphasized more the fairness, did more on the tax side, for different reasons from Alberta, which is obviously Conservative and acted more on the expenditure side. But both of those governments, coming from very different ideological starting points, are approaching a balanced budget. Alberta had an oil windfall but Saskatchewan, as far as I know, didn't have any windfalls. So it seems to me that in comparison with other provinces, Ontario's progress in terms of getting the deficit down has been rather limited.

All in all then, it seems to us that further actions will be needed just to hit the targets and that if one wants to make greater progress in bringing down deficits, one would have to go further still.

Finally, I might say that our projections for growth are relatively optimistic and that at some point there is going to be a downturn, and the best time to take these difficult actions is when the growth is good, as it is today, and the worst thing to be stuck with is when you get into a recession and are forced to make the cuts at that point. So we think that while it's difficult to get deficits under control at any time, now is as good a time as ever, when the economy is relatively strong.

**The Chair:** Thank you for your presentation. We have about nine minutes per caucus. We'll start with Mr Carr.

**Mr Carr:** We've had an opportunity to meet before. Coming from Oakville, it's great to see you here and we welcome you.

You talked a little bit about the approaches between Alberta and Saskatchewan. As you know, before Alberta got involved in its program to balance the budget there were a lot of cries that people were going to be thrown out on the streets and so on, and that hasn't really happened. In many regards, as you know, that Premier probably is at 61% approval rating and has done it based on making spending cuts. Alberta is lucky in that it doesn't have a tax rate that is as high as ours—personal income tax rates in Ontario are 30% higher—plus they do not have a sales tax like we do. So therefore, if you look at it, you would see that we have more revenue coming in, but obviously we have more expenditures.

My question to you is this: Looking at other jurisdictions, Alberta and Saskatchewan that you used, as you look at the books here in Ontario—and I recognize that as an economist, you're looking at different things—how would you size up what we have here in the province of Ontario? Do we have a revenue problem or do we have a spending problem?

**Mr McCallum:** You have a deficit problem—or we have a deficit problem, because I live in Ontario too. I made something of the Alberta-Saskatchewan comparison because to me it's a positive point, that this can be non-ideological. I think the approach that one takes will depend on the political ideology of the government in power and it will also depend on the political ideology of the population, and that's quite different in Saskatchewan from Alberta. Albertans are more conservative than Saskatchewaners, on average, at least if you judge by the governments they've elected in the past.

So I think it's a deficit problem. I think increased taxation always has a cost and I think Canadians are particularly opposed to major tax increases at this time, if one reads the polls, but I wouldn't want to, as an economist, particularly one with a major financial institution, say that it has to be done one way or another. I think Saskatchewan did it its way, given the ideology of the government and the people and the perceptions of what the priorities were, and that worked in Saskatchewan. Alberta did it a more conservative way, focusing almost exclusively on the spending, and that seems to have worked for Premier Klein. Even though it's true that there are costs involved in higher taxes, there may also be costs involved in program cutbacks. So I wouldn't want to pronounce on that. I think it has to depend on the ideologies and the circumstances and the preferences and the political choices of the jurisdiction in question.

**Mr Carr:** The good news is there will be a decision made by the public this year and they will get to choose.

I want to talk about some other jurisdictions. I think you're right; I was asking your opinion and I understand that as an economist you're more interested in explaining rather than giving your personal opinions and what you would do if you were Premier. I guess you would have run for elected office if you wanted to do that, and I appreciate that. You've hit the nail right on the head of the options.

Other jurisdictions, for example, New Jersey, with a Republican governor down there, Christine Whitman, Governor Engler in Michigan, have also cut taxes at the

same time and they said you can't cut taxes and still balance the budget. Well, you can as long as the spending cuts are greater. That's just the logic. In terms of balancing the budget—let's put this in very simple terms—you can do whatever you want in terms of cutting taxes as long as the spending cuts are greater than the tax cuts that are proposed. I'm right in that assumption?

**Mr McCallum:** Yes, that's a question of arithmetic. Clearly, you're right in that assumption, yes.

**Mr Carr:** And right now, what we're saying in terms of the taxes—and I made the reference to Alberta—our tax rates are 30% higher, our personal income tax rate, provincial, and many people don't even understand where the personal income tax goes; they think most goes to the federal.

We don't have a sales tax, and that's why we're saying—and again, I appreciate you're not going to comment—our rationale is that we don't have a revenue problem. We have more revenue coming in in this province than Alberta does, but we have a spending problem, and there can be major spending cuts in this province of Ontario. We've listed \$6 billion of them that I think can be made and quite frankly I think we could even go further without having the dire crisis that some people are predicting.

So my question to you is this: You may have had an opportunity to look at other jurisdictions, the New Jerseys, for example, where tax cuts have come in and they have been able to go down the road to a balanced budget because they've really taken a hard look at spending cuts.

Again, I'll ask you, looking at it as an economist and notwithstanding the fact that you may not want to comment, if you were in charge here in the province of Ontario and you had the approach of cutting spending or cutting taxes and it was open to you what to do, let me really put you on the spot and ask you, what would you say to the Treasurer, the Minister of Finance, in the next budget? What should he be doing with regard to the taxation and the spending and how would you do it percentage-wise and where would you cut?

**Mr McCallum:** That's a simple question.

**Mr Carr:** You're from Oakville, so I'm sure you'll be able to give us a great answer.

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**The Chair:** I'll remind you that you only have five minutes for the answer.

**Mr McCallum:** It's clear from my opening statement that we think the targets could be made more ambitious, so either a spending cut or tax increases relative to the current plans. My own predisposition would be to have more reductions on the spending side than are currently in the budget, because I think that compared with what other jurisdictions have done, the spending action is relatively modest and more could be done.

But whether one would go so far as to have tax cuts, spending cuts so big as to generate room for tax cuts, it's really a political issue. It depends, as I said before, on the political culture and on the degree of pain of those spending cuts. If you really push me for a personal view,

I don't think I'd go for tax cuts, but I would focus more on the spending side than the cuts side in terms of trying to get this deficit under control.

**Mr Carr:** Let me ask about the tax cuts. As you know, so much of our economic activity is related to consumer spending. Consumers are not spending. They are still very leery for a lot of different reasons. Even when the interest rates went down they were very fearful. So let me ask you from a technical standpoint—tax cuts, I believe, will have a big psychological advantage.

There are two options. Governments can do like the federal Liberals did. They promised government spending to create jobs and they won the election based on that. Or you can say to the people of the province, "We're going to give you the money, in terms of tax cuts, to spend the way you want," to buy refrigerators or stoves or whatever for themselves, as opposed to the major infrastructure program like the federal Liberals have done.

Let me ask you this: If we had a tax cut in the province of Ontario, if the personal income tax were cut by about 30%, what would that do to economic activity here in the province of Ontario for consumers, what would it do for consumer confidence and would it change the growth rates of 3% that you're projecting?

**Mr McCallum:** Taken by itself, yes. If all you did was lower taxes and everything else stayed the same, then people would have more income and they'd spend more. But presumably what you're saying is if you cut taxes by X dollars you'd also have to cut spending by X dollars, and then you'd have to balance off the employment effects of one against the employment effects of the other, and that's an empirical question. I guess my own personal view would be that the deficit problem really is the most important thing one should focus on and then maybe one should not have the luxury of lower taxes until one has made more progress on the deficit.

**Mr Carr:** But if you were to cut spending, say, for argument's sake, by \$6 billion, as we've called for, and cut taxes by \$4 billion, so the spending cuts are 33% higher, and I'll give you the figures again—cut spending by \$6 billion and cut taxes by \$4 billion—doing that and applying the \$2 billion in the deficit would be better than what we're doing right now.

**Mr McCallum:** I think that is a question that depends a lot on one's ideology. It's not a purely economic, technical question. You could say, which would be better for society? It's not the place of an economist to answer that.

**Mr Carr:** How about better for the deficit?

**Mr McCallum:** Which would be better for the economy? Again, it depends on how consumers react; it depends on where those government spending cuts occur and what happens to the spending by the people who are hit by them, so one would have to look in more detail. I can't give you an answer off the top of my head. But clearly it's true the way you framed it: If you cut the spending by \$6 billion and the taxes by \$4 billion, again, by arithmetic you're going to improve the deficit. I'd agree with you on that.

**Mr Carr:** And also the growth rate, I would assume,



because of the economic activity in the tax cuts.

**The Chair:** Mr Carr, we have to move on to Mr Wiseman.

**Mr Wiseman:** You were in the room when I was pursuing my interest rate questions with Mr de Bever.

**Mr McCallum:** Yes.

**Mr Wiseman:** I'd like to take a different tack with you but in the same general area. Let's stop using these sanitized words that the Tories and Liberals are using about spending cuts. Let's talk about what that means. That means increased unemployment, people being laid off, because 80% of the money that's being spent is being spent on wages. If you're going to cut \$6 billion, you're going to have to cut a lot of people's wages and put them out of work and put them on the unemployment rolls in order to do that.

The Conference Board of Canada, when it was before this committee last year, indicated that there's a fine line and it's very difficult to determine at what point your government spending cuts will send the economy back into a recession prematurely. So my question is, at what point would the spending cuts that are being advocated increase unemployment, become detrimental to sustained economic growth, and at what point would they throw your projected figures of growth completely out the window?

**Mr McCallum:** Our projected figures of growth do take account of the spending cuts at the federal level promised by Mr Martin in order to meet his target. So we already do take account of that. I think it depends a little bit on what your alternative is.

If you posit a world in which there are no spending cuts at the federal level, let's say, and then you say, "Cuts, what will that do?" clearly the direct effect of the cuts is to reduce jobs, but if you don't cut, then you might be on to a totally unsustainable path and you might have some kind of financial crisis if you totally ignore your deficit, and that would give you much higher interest rates and even less jobs.

You see, it depends what you think the alternative to the cuts is, and I believe, at the federal level at least, that the situation is such that we have no alternative but to at least hit the 3% target, even though I know and we all know that this will not be painless at all. But the alternative to that is to go in an ever upward spiral of debt which would bring the financial markets down on top of us, bring ever higher interest rates and less jobs than under the cutting scenario. That's the dilemma in which we find ourselves, which is as a result of at least 20 years of rising debt.

**Mr Wiseman:** Just one quick question, because I know my colleagues would like to ask some questions: If the scenario is that you cut greatly or that you cut your taxes and increase the amount of money that is in the economy, that could be inflationary by increasing the amount of demand for certain goods. It could create an inflationary spiral in the economy by switching some of the purchasing power.

I'm just wondering if given that the Bank of Canada has said that a 9% unemployment rate is the unemploy-

ment rate that is non-inflationary in Canada—it wouldn't intervene in order to increase interest rates in order to take the money out of the economy—who better should have the money, the banks or the people spending it? The impact on keeping unemployment high: How do you then move towards a lower deficit if you continue to have massive numbers of people unemployed like the Liberals and the Tories have done when they've been in government for the last 10 or 12 years in Ottawa? You can forget the political part—that was my addition—and just deal with the economic.

**Mr McCallum:** If I understood the question, it's to do with inflation being a problem if taxes are cut. If we were close to full employment already and taxes were cut, it would add to the spending and that would be inflationary, yes, but I think our unemployment is quite high today.

**Mr Wiseman:** Not according to the Bank of Canada; it's going down too low.

**Mr McCallum:** No, the Bank of Canada, even if the natural unemployment rate is 9%—that's at the high end of the estimates, I would say, and it's still—

**Mr Wiseman:** No, Paul Martin said in his budget that that's—

**Mr McCallum:** But it's still above 9%. So we believe, and it's on this piece of paper, that over the next couple of years, even though Canada has decent growth, we're not going to have an inflation problem. If you say we are, you're kind of more conservative than we are. We think inflation is under control in Canada.

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**Mr Wiseman:** No, my whole point is that I think that what the federal bank is being allowed to do in Ottawa is counterproductive to what needs to happen in the country to bring the deficit down. What they're doing is putting more people out of work because they are projecting that a decreased unemployment rate is inflationary so they have to put people out of work, and I'm saying that—

**Mr McCallum:** You could make that argument for the United States, because their unemployment rate is well below 6%. But I don't think anybody would argue today that Canada's unemployment rate is too low and creating an inflation problem. If we have vigorous growth over the next couple of years, then maybe we will have that problem down the road, but I don't think we have that problem today.

I don't think Canadian inflation is a problem. We're not cutting the deficit in Ottawa because we have an inflation problem; we're cutting the deficit in Ottawa because we have a debt problem and if we don't get serious about it, then, as I said, these international markets will descend upon us and we'll have higher interest rates and then we'll be really in the soup. We're cutting the deficit in Ottawa and possibly in Ontario because of this accumulation of debt which has got to the point where there really isn't any alternative. We're not doing it because of inflation; we're doing it because of the debt.

**Mr Wiseman:** But my only point was that the interest rates are going up by the Bank of Canada in response to

the federal reserve in the United States that is increasing their interest rates because the unemployment rate has dropped below what they consider to be a sustainable—

**Mr McCallum:** Right. Well, that's the problem of being the mouse living beside the elephant. Their policies are not appropriate for us, but we are their neighbours and we have to import them to a degree. Now, in fairness to the Bank of Canada, it has resisted this to the point of letting our dollar sink to whatever it is, 70 cents, 71 cents, close to the all-time low, and that has offset to a degree the higher interest rates so that the overall monetary conditions have not been all that bad, because the lower dollar which they've allowed has offset the higher interest rates. Clearly we're having strong growth now and we think this current year as well. The Bank of Canada has been reacting to these events south of the border over which it has no control, and I think overall the balance it has chosen has been not inappropriate.

**Mr Sutherland:** Coming back to the point raised about the tax cut stimulating consumer spending, based on the information you've presented here about rising household debt burden and also the low saving rate, there's no guarantee that consumers would necessarily be out spending automatically, that they may be increasing their saving rate or reducing their household debt burden.

**Mr McCallum:** Right.

**Mr Sutherland:** Thanks.

**Mr McCallum:** Those are clearly the negatives in terms of consumer spending. The major positive is the strong growth in permanent jobs which are helping to bolster consumer confidence, so one weighs one against the other and on balance, in our view, that means moderate growth in consumer spending.

**Mr Sutherland:** I guess what I was just trying to say is, if you reduce the taxes by X amount, that doesn't mean X amount is automatically going to be spent by the consumer, given these two other factors that you've pointed out.

**Mr McCallum:** Right. But a part of it would.

**Mr Sutherland:** Yes, somewhat.

**Mr McCallum:** One would have to get into a debate of how much.

**Mr Sutherland:** Sure.

**Mr Wayne Lessard (Windsor-Walkerville):** You identified one of the deficit problems as the fact that a lot of our debt is financed outside of the country and Mr de Bever mentioned this as well, that we don't have the ability to finance the debt internally. Do you agree with that and do you think it may be possible for us to finance more of our debt internally?

**Mr McCallum:** It's a fact that Canadians save less than we spend, that we have an imbalance and this is reflected in the large current account deficits, which means that we borrow a lot net from the rest of the world. We've done this over many years so that our net foreign debt is up very high, at close to half of our gross domestic product. So, yes, we've got into the habit, mainly because of excess government borrowing, of borrowing from abroad much more than we lent to abroad.

I don't think you can solve that problem by, let us say, the government of Canada or the government of Ontario simply borrowing more domestically and less from abroad, because then you've just changed the mix. That would just force the private sector to borrow more from abroad if governments borrow more domestically. It just shuffles things around. You can't solve the problem in that cosmetic way just by the government borrowing more domestically.

The only way you can solve the problem is if Canadians as a whole save more, and the way in which that can be done is if governments reduce their dis-saving, ie, reduce their deficits, or if households increase their saving. So the fundamental is to get this dis-saving down or the saving up, and shifts from foreign to domestic won't really help unless you tackle the fundamental issue. I know there have been some schemes proposed to borrow more domestically, as if that would solve the problem, but that in itself won't solve the problem, in my opinion.

**Mr Phillips:** You've given us some indications on the finances of the province that are far more pessimistic than the government's estimates. I'd just like to discuss it a little bit, because as I look at it you're assuming the deficit could be as much as \$3.5 billion higher than the government has been projecting for 1995-96.

**Mr McCallum:** No, \$1.5 billion—the difference for 1995-96.

**Mr Phillips:** The government, in the paper they produced, said the deficit would be \$6.5 billion in 1995-96. You're saying it's going to be \$9.9 billion.

**Mr McCallum:** Yes, but our base is \$8.4 billion. I think this might be the difference in how one measures the deficit. We had the total restated budgetary deficit at \$8.4 billion in 1995-96, and as a result of our adjustments it goes up \$1.5 billion.

**Mr Phillips:** I understand. I'm just saying that the government is saying the deficit in 1994-95, this fiscal year, is going to be \$8.3 billion. Your belief is that we should be saying it's more like \$10.2 billion. Is that correct?

**Mr Carlos Leitao:** That's their restated deficits.

**Mr Phillips:** Okay, so that's how you—

**Mr Leitao:** —spending added back.

**Mr Phillips:** Right. You look at it that the real deficit in the province is \$10.2 billion, and next year, because you feel that the interest costs are going to be higher than predicted—and I gather on the revenue side you're assuming that the taxes stay exactly as they are. Is that correct?

**Mr McCallum:** Tax rates, yes.

**Mr Phillips:** The tax rates stay exactly as they are and the deficit will be almost \$10 billion in 1995-96 if the spending is as the government says. Is that a fair characterization of your numbers?

**Mr McCallum:** Yes. I think another way of putting it is that the differences between us and the government arise entirely from two sources. One is lower revenues because of lower growth, and we're just reducing them



proportionally to the growth, and second, higher debt service costs. As I said in my opening remarks, our numbers are rather crude in that area. It's a ballpark estimate. You may want to ask people who have more information in the government what the true numbers are.

**Mr Phillips:** The true numbers, yes.

**Mr McCallum:** Given those assumptions.

**Mr Phillips:** Because as I say, you're far more pessimistic, I think, than the government numbers at almost a \$10-billion deficit for 1995-96.

Just a question in terms of advice we can be giving to the Minister of Finance: There is one school of thought of a fairly substantial cut in personal income tax, of perhaps up to \$5 billion of reduced personal income tax revenue. If we were to look at that over, let's say, a two- to three-year period of \$5 billion less in personal income tax revenue, do you have any thoughts on the implications that might have in terms of our creditworthiness in the province and whether we could sustain a \$5-billion reduction in revenues?

**Mr McCallum:** It depends what you do on the spending side. What are you assuming on the spending side?

**Mr Phillips:** I assume if you cut \$5 billion off revenue and the deficit's \$9 billion, you have to cut \$15 billion or something like that to balance it. Is that right?

**Mr McCallum:** I don't think anybody, so far as I know, is calling for a balanced budget in 1995-96. I don't think that would be—

**Mr Phillips:** No, I was looking ahead at 1996-97, because I assume—if you took \$5 billion off the revenue that you have for 1996-97 and got it down somewhere around \$44 billion, what sort of reduction in expenditures would one need to kind of sustain our creditworthiness? Have you any feeling on that?

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**Mr McCallum:** I think you're all trying to draw me into this tax issue.

**Mr Carr:** Remember where you're from, what your riding is.

**Mr McCallum:** Well, you know, I don't think many people think it's appropriate for banks to take partisan issues in upcoming elections. Certainly we tried to avoid that in Quebec and I imagine we will in Ontario.

**Mr Carr:** Just tell us who you're going to vote for in Oakville.

**Mr McCallum:** My basic point is that we have a big deficit problem and we think it would be prudent to tackle that more vigorously than we see here. Now obviously, given that initial view, to the extent that one cuts taxes, one's going to have to have that much more reduction in spending. There's a huge amount of spending reduction required without any cut in taxes, so whether it would be prudent or desirable or possible to have tax cuts in this environment, requiring even larger spending cuts, I don't know. I'd say that's more in the realm of politics and less in the realm of economics.

**Mr Phillips:** Just so I know the bank's numbers, I guess you're saying right now that if taxes stay exactly

the same as they are, no change, if the economy grows at what you think the economy will grow at, if spending goes up at the rate of 1% a year, there will be a deficit of roughly \$9 billion two years from now, 1996-97.

**Mr McCallum:** If spending goes up as projected by the government, yes.

**Mr Phillips:** Which is at the 1% rate.

**Mr McCallum:** Okay, well, then the answer is yes.

**Mr Phillips:** Then to deal with that \$9-billion deficit, in your mind, requires I guess your suggestion: heavy on the expenditure reduction side. I gather, in theory, if you were to do it in 1996-97, although you're saying it would take longer than that, you've got to somehow or other cut \$9 billion out of the \$47 billion, and that assumes no reduction in taxes.

**Mr McCallum:** I am not offering you any particular target, like zero, by any particular year. I'm just saying this is much too high. Other provinces have gotten to zero. Maybe over four or five years it would be possible to get to zero. Whether you choose to do that entirely or more than entirely on the spending side, that is in large measure a political judgement.

**Mr Phillips:** I guess the new piece of information you've brought to us today is that your feeling is that debt-servicing costs will be substantially higher than previous estimates.

**Mr McCallum:** And revenues lower; more than half of the adjustment comes because of the revenues.

**Mr Phillips:** Right. Thank you.

**The Chair:** There's about a minute and a half left, Ms Caplan.

**Mrs Caplan:** Do you want another minute? Go ahead.

**Mr Phillips:** Yes. Just so I'm clear on what you feel the gross domestic product will be over, let's say, the next three to four years in terms of real growth in Ontario, I didn't see it in your charts here, but what's the bank's view?

**Mr McCallum:** We only go to 1996 and we haven't yet got our revised Ontario figure. For Canada for 1995, we say 3.8%; for 1996 we say 2.6%. We don't think Ontario would be that much different, but we're still working on Ontario. We haven't got our revision out yet, but it'll be in the same ballpark as Canada.

**Mr Phillips:** Somewhere just slightly above 3%. Is that fair to say?

**Mr McCallum:** Yes.

**Mr Leitao:** We used 3% on the nominal GDP growth.

**The Chair:** I'd like to thank Mr Leitao and Mr McCallum from the Royal Bank for making your presentation before the committee this morning.

PROVINCIAL AUDITOR

**The Chair:** The next presentation this morning is by the Provincial Auditor, Mr Erik Peters, if Mr Peters would like to come forward, not one who's unfamiliar with committees. If you could identify for the members of the committee and for Hansard who your associates are with you today, you may proceed when you are ready. I might remind you too that you have 30 minutes

to make your presentation and field questions.

**Mr Erik Peters:** Just to introduce, Ken Leishman is the assistant Provincial Auditor, and Jim McCarter is an executive director in my office and he looks after the public accounts.

I'd like to thank you very much, as a committee, for giving me the opportunity to make a brief presentation in your budget consultations. I'd also very much like to thank the Minister of Finance for developing the budget consultation process and for the steps he has taken to reconcile the convention of budget secrecy with open consultation. That is a very positive initiative which allows input before final decisions are taken on the budget.

Very few government documents have the potential to affect the lives of Ontarians more profoundly than the budget. The budget is a fiscal policy document which I should not, do not and do not want to audit, because I should not, do not and do not want to examine and provide opinions on government policy.

What I can do, and what I'm doing again today, is to urge the Ministry of Finance to improve the financial information presented to the legislators with the budget. Simply put, tell it how it really is, tell it when it counts and tell it to whom it counts.

The debilitating impact of public debt resulting from deficits has been much discussed and is well known. Most of the key financial decisions by the legislators are based on the financial information presented with the budget. It is, therefore, very important that the hard decisions necessary, and I quote here the Minister of Finance, "to reduce the deficit, and to keep it going down," be based on reliable financial and operational information, including a realistic comparison between planned and actual financial performance.

The reason I'm here for your budget consultations is to strongly advocate that, beginning with the 1995 budget presentation, an end be put to the confusion which exists, due this year to the potential difference of about \$2 billion, between the current year's deficit to be reported with the 1995 budget to the Legislative Assembly and the real 1995 deficit determined by using the financial discipline applied in the Public Accounts of Ontario.

That financial discipline I'm referring to is used by the Ministry of Finance in preparing, and by my office in auditing the public accounts, and those public accounts, as you all know, are published in the fall, several months after you have the interim, unaudited results. This financial discipline is also used by financial analysts and bond rating agencies at budget time in the spring, and the same financial discipline is used by Canadian and provincial governments with which Ontario competes for funds in the market. Advocating an end to this confusion is totally consistent with my 1993 and 1994 annual report.

Specifically, I'm making the following suggestions:

There are about \$2 billion of so-called capital or capital-related financial events planned for the year ending March 31, 1995. These financial events should be included in the deficit for the fiscal year presented with

the budget. This must be done to reflect financial reality. This is not a matter of accounting rules; this is a matter of financial reality.

The second suggestion pertains to accounting rules. The accounting rules, and the financial discipline used for financial information in the budget, should be identical to those used in the public accounts.

Some good news on these proposals was provided by officials of the Ministry of Finance who told the public accounts committee in November that the presentation of the 1995 budget would include a reconciliation between the budgetary modified cash accounting basis and the new accrual and consolidation accounting basis, not only for the 1995 "actual" interim unaudited deficit presented with the budget but also for the upcoming budget itself.

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I call this only "some" good news because what the officials of the Ministry of Finance also said may be summarized as follows: The budget presentation will not be identical to that used in the public accounts, and I underline "not." The most important difference, they said, is the treatment of the province's capital investments. They say it is important to illustrate to the public the magnitude of capital investment that the government is making. Full disclosure means that the important role played by capital in the government's economic and fiscal plans needs to be a central part of the budget presentation. This is what they said.

I am all for full disclosure, but to exclude very sizeable capital grants alone, which amount to \$1.6 billion, from the deficit is neither full disclosure nor would it be correct to explain their exclusion as a difference in accounting rules. These grants are part of the deficit under any accounting rules. To include the grants in the budgetary deficit would be consistent with the way Ontario has presented its budgets from 1985 right through to 1993.

Therefore, notwithstanding the disclosures offered by the Ministry of Finance, I continue to urge that both the budgeted and the actual results, currently deficits, be determined based on the same financial discipline and on identical accounting rules and thereby reflect the same financial realities.

We should all look forward to the day when such confusing reconciliations are no longer necessary so that legislators such as all of you can at budget time better assess where the government has been, is and will be financially, and better assess differences between the planned and the actual financial reality. The Minister of Finance has said, "The budget...is not a set of accounting books." I agree with that statement but I say that the budget must reflect financial reality because the budget is fundamental to sound financial and fiscal accountability.

I would like now to address my suggested improvements in financial information about capital.

It is the inclusion or exclusion of what the government calls "loan-based capital investments" that has the greatest potential for distorting the 1995 estimated deficit reported to the Legislature with the 1995 budget. Specifically, such capital grants are recorded in the budget as



loans rather than as expenditures, even though the government is responsible for giving the recipient organizations the money to make their annual loan repayments. It is also a matter that the Ministry of Finance has identified as unresolved, and if you read the budget very carefully this year, you found that there is \$83 million indeed budgeted for repayment of loans made in the previous year. The ministry includes these items in the public accounts deficit later in the fall, but excludes them for the budgetary deficit which it presents in the spring. I say include them in both deficits.

At this point, you may find it helpful to refer to the handout that Lynn has been kind enough to give everybody.

When the 1994 budget was presented, the Legislature was told by the Minister of Finance that the 1994 deficit was estimated to be \$9.4 billion. Shortly thereafter, this was adjusted in publications to \$9.278 billion. They told us that the 1995 planned deficit was \$8.5 billion, adjusted thereafter to \$8.3 billion in one of the later publications. This was presented with a footnote which said that the \$8.5 billion for 1995 excluded \$1.6 billion in "alternative capital financing."

In subsequent publications by the Ministry of Finance, the footnote disappeared. It did not appear in the booklet, *Ontario On the Job and Looking Ahead*, page 18; it's gone. It's gone in the latest statement of Ontario Finances, although the \$1.6 billion remained on page 3 as one item that will be expended.

Yet people in the know, financial analysts and rating agencies—you heard one preceding me earlier in the morning—immediately added the \$1.6 billion mentioned in the footnote to the deficit. Not only that, they added other kinds of capital-related transactions and stated publicly that Ontario's 1995 deficit would be over \$10 billion; some went as high as to say it would be over \$11 billion, actually.

These transactions were added to the budgeted deficit by the financial analysts, and the actual amount of these transactions will be added to the deficit in the 1995 public accounts, not because of the application of differing accounting rules but because adding them to the deficit simply reflects financial reality. Capital grants are a current expenditure which should be included in the current deficit. A grant is a grant and a current expenditure, even if it is called—these are the government's words—"non-budgetary loan-based capital," and even if intragovernmental loan agreements are actually made. Substance must prevail over form.

I digress for a moment. I had a very interesting letter from one municipality that looked at the grant that it normally received to run its clean water plant. They pointed out to me in that letter, and the letter was copied to the Minister of Finance incidentally, that previously capital grants involved two parties: the granting ministry—Municipal Affairs, most likely—and the grant recipient. Now the same transaction involves up to four loan agreements and five parties. The effect remains the same, and in fact the Ministry of Municipal Affairs has, according to that letter, advised the municipality that it still should treat it like a grant.

The major financial realities applying to these capital grants, which you see in the handout, are as follows: The capital loan recipient must rely on future grants by the Legislature to repay the loan and, secondly, the capital is owned by a grant recipient and not by the government whose deficit is reported. I advocate that the actual amount of these capital grants be included in the 1995 deficit presented to the Legislature with the budget and that these items not be explained away as an accounting difference.

To the second item: The interim unaudited 1995 deficit presented with the 1995 budget should also not be reduced by \$250 million for provincial land and buildings turned over to the Ontario Realty Corp unless that corporation actually sells those properties to independent third parties outside the government. The financial reality is that only the sale of the properties to parties outside the government or outside its agencies generates real revenue, and it's only that real revenue that would be included in the public accounts of the province.

As well, proceeds from debt resulting from the sale and repurchase of capital assets should also not reduce the deficit, especially if the transaction makes the government directly liable to fund the repayment of the resulting debt. According to the 1994 budget, refinancing of this kind is envisaged to increase borrowing by \$165 million.

This item is not on your list, but I've also a number of significant questions about the \$349 million of capital expenditures relating to projects such as Highway 407 and the Metropolitan Toronto Convention Centre which were planned according to the budget for 1995.

In conclusion, the key benefits of implementing what I advocate are:

(1) An end would be put to the confusion which exists about the size of the deficit reported to the Legislative Assembly at budget time and the size of the deficit determined by financial analysts and rating agencies, and later in the year in the public accounts.

(2) The credibility of the budget would improve.

(3) The difficult financial and program decisions which you as members of the Legislative Assembly have to make to cope with debt and deficit will be based on a clearer picture of where the provincial government has been, is and will be financially.

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I hope that you find the matters I've brought before you useful in your budget consultations and we'll be pleased to answer any questions you may have.

**The Chair:** Thank you very much. We have five minutes per caucus. We'll start with Mr Sutherland.

**Mr Sutherland:** Mr Peters, you've raised this issue again today and I guess my question to you is—and I guess before I ask that question, I appreciate you taking the time to note what the government has done in terms of the finances, in terms of the public accounts. You've noted in the public accounts committee the difficult challenge of an organization as large as the provincial government changing over from a modified cash basis to the new accrual basis and the work the ministry did and how it cooperated in doing that.

You've also indicated what the Minister of Finance has indicated, that in the budget he will do a comparison of the budget forecast with what it may look like in the public accounts. But I do think it is important to note here today too, though, that there are at least six provinces whose budgets are presented on a different accounting framework than the public accounts and including, I guess in some ways surprising, the alleged new messiah of how government finances and how governments operate, Ralph Klein in Alberta.

The question to you is, there must be some reason why seven of the 10 provinces are doing this, and is some of it having to do with the fact that the Public Service Sector Auditing and Accounting Board is still trying to come up with specific guidelines on how to deal with capital, how capital should be treated, how issues of depreciation of capital should be treated, as to whether it should be only expense in one year or whether it should be, as is done in the private sector, over several years?

I guess what I'm saying to you is that this sense somehow that what Ontario is doing is unique is not unique in terms that many other provinces, whether it be Conservative governments, whether it be Clyde Wells's Liberal government in Newfoundland, are doing this and part of that is because there's still a bit of uncertainty as to how to deal with capital in terms of the public finances.

**Mr Peters:** Thank you very much for that question. Indeed, there is some uncertainty as to how to deal with capital finances, but there is absolutely no uncertainty in any government in Canada, nor by the financial analysts, nor by the Public Sector Accounting and Auditing Board of the CICA, that capital grants are to be expended in the accounts as they are done. It is not a matter of accounting rules. This is a matter of simple financial reality, and it's a matter of financial reality recognized by the current government. We have the Ministry of Municipal Affairs telling municipalities, "Treat it as a grant, even if we treat it as a loan."

But to get back to your second part, the valuable contribution that capital represents and the disclosure, I have absolutely no problems with. But what has to be done, and I also said that in my 1994 annual report, you have to put the necessary policies in place, how to do it, and you have to put the business right. There is a lot of legislation involved. For example, how the government deals with hospitals to which they make the grants is governed by the Public Hospitals Act and that has certain things. So it is a long process to get there.

I have indicated frequently to officials at the Ministry of Finance and also to the Minister of Finance directly that we would be happy to cooperate in that effort to put the business in place so that the valuable contribution of the capital can be recognized in the accounts. We are just not there. Nor is Alberta there at the moment. They're still wrestling with it. They think they may come up with a budget this year, but other governments are nowhere near there.

There are of course certain assets which we are already recognizing and have agreed to recognize last year. We have recognized, for example, capital assets which the

province holds and wishes to resell and they are taken into the accounts, capital assets which create, actually, revenue outside the consolidated revenue fund; for example, the toll road 407. We are actively pursuing how that can best be displayed. So we are very actively working towards this goal.

But the point I'm making here is, those capital grants that are called loan-based capital grants would be excluded by any government under any accounting rule. And never mind accounting rules; it's just financial reality. Even as your Ministry of Municipal Affairs says, these are grants; these are not loans that we can recognize.

**Mr Sutherland:** But I do want to clarify, you have stated today that all the financial information is presented in the budget, that the budget is a planning document and the budget is not a second set of books or a second set of the accounts.

**Mr Peters:** The budget is not a second set of books, but the budget does disclose these items. The problem that I have, and I'm pointing it out, is it's not reflecting them correctly. It's not relating the impact correctly. It says, "Yes, we have additional capital financing," and it says, "We exclude them from the deficit," but it is then left to the reader to make a decision whether to add it in. What I'm saying is that the people in the know automatically add it in. That, I think, is disclosure that can be improved.

**Mr Phillips:** This is very, very helpful and very, very important, because I'm afraid we're dealing with two totally different numbers. The government put out its document saying the Ontario deficit is down by 30%. Today, I think we've heard from the independent Provincial Auditor, whom the Legislature relies on for its advice, that the deficit for this year is not what the government's reporting. When you finally audit the books and you reflect financial reality, are you saying to us that based on what's in the budget right now, the deficit would go up by \$2.015 billion, according to financial reality?

**Mr Peters:** These were the numbers as taken out of the budget. The actual numbers may differ. But yes, this is one set of amounts and the other one that I mention in my text was the other \$349 million of capital projects on which there's uncertainty, and I didn't want to include them in that statement, because these amounts I'm relatively sure of.

**Mr Phillips:** I honestly think we're dealing with a bit of what I call a fairy tale budget that we're preparing, which does not bear—this is the budget that the government is going to present—a relationship to financial reality, as you say. I just want to confirm that if they proceed with these transactions, and according to the third quarter results, the ones we just got a week ago or so, they are planning to proceed with them, the deficit is not going to be \$8.3 billion this year, but it will be \$2 billion higher than that number. Is that a fair characterization?

**Mr Peters:** Mr Phillips, it could be higher by that much. I do not know what the actual transactions will look like—



**Mr Phillips:** But if they proceed with these transactions—

**Mr Peters:** —but that gives you an indication of the rate if they proceed as budgeted and proceed in the way it was budgeted, that it will be reality.

**Mr Phillips:** You're also saying that, in your mind, the investment community already does these transactions and takes the government numbers and then adds these to it in assessing the finances of the province. The problem is that the public rely on the budget for their numbers and the Legislature relies on the budget for its numbers and we are not getting financial reality when we don't include these numbers.

**Mr Peters:** What I'm saying is that the people in the know seem to be putting different information together from the budget that is presented, and what I'd like to do is have the financial information have that quality. If you look at clippings that we took—for example, the *Globe and Mail* reported immediately on budget day that, for example, the \$1.6 billion should be included. That was right in their text and assessment of what was there. The *Financial Post* did the same thing. The bond rating agencies did the same thing. So what we're saying is, why are these people putting out different numbers than the ones that are presented to you in the Legislative Assembly? That is the concern for me as a legislative auditor.

What my real concern is, and why I'm before you today, is really the true concern of a professional auditor who finds himself, by the time he has to audit the public accounts, confronted with the fact that the management of the client, if you will, has already gone public with different numbers than what I'm going to look at. That is virtually a professional duty of an auditor, to come forward to the client and say, "Can something be done about this particular situation?"

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**Mr Phillips:** If I can paraphrase that, you're saying your client is the Legislature and the public.

**Mr Peters:** That's right.

**Mr Phillips:** And that currently we are not getting the information we require to deal adequately with the budget, that we're not getting what you would call the real deficit number. Therefore, at the time we're dealing with this, which is right now, the government is saying, "Listen, the deficit's gone down 30%," and our independent Provincial Auditor is saying: "No, it's not. We have a completely different set of numbers."

**Mr Peters:** Two points. Let me just be abundantly clear. Firstly, there is good news, and the Minister of Finance has told the public accounts that what you find at the bottom of this handout I have, the \$15 million that it amounted to last year, that reconciliation will be prepared.

What I hope to achieve with today's appearance is to urge them to look after the other part, because last year that did not happen. Last year that may not have happened because of the tremendous task that was successfully completed of changing the accounting for the first time in 25 years. What I hope to achieve here, in answer

to your question, is hopefully that will be done with this year's budget, that the adjustment will be made. So I can't speculate that they haven't. They haven't last year but there may have been good reasons for not doing so. I hope that problem will be overcome this year.

**Mr David Johnson:** Mr Auditor, you look a little bit exasperated. It's sort of like banging one's head on the wall for three years in a row. I can only say, keep up the good work. I tend to believe your numbers and I think the people in the province of Ontario do as well.

The concern perhaps that you're explaining dovetails with some of the information that we heard this morning before you, that the forecast for the deficit this year is \$10 billion, from the Royal Bank, and the forecast for the following year is \$9 billion. If one extrapolates those numbers through to the end of this decade, another \$40 billion could well be added to the debt of the province of Ontario, which would bring the total debt from \$90 billion today to \$130 billion and would mean at that point in time that probably over 20 cents of every dollar from the budget would be spent simply to pay interest.

When you talk about information flowing to the elected representatives, proper information on the deficit, is that the kind of concern that you have and the kind of information that should be flowing so that when we make financial decisions, we understand the implications in terms of what the future debt could be in the province of Ontario?

**Mr Peters:** That is a fair question and a fair assessment. Indeed, though, the government has very clearly disclosed its borrowing requirements. In fact, that is what stirred the financial analysts into the range. If you look at the budget itself, it shows a fairly consistent borrowing well in excess of the \$10-billion range. Actually, if my numbers serve me right, and don't hold me to it, I think it's a little over \$11 billion of new debt in each of the years that they go forward. What the financial analysts have problems with is how to reconcile going to borrow over \$11 billion and having a deficit of only, say, \$8 billion. What's happening to the difference? Then they put two and two together and they write to newspapers and say, "But the real number is," or something like that. So there is a direct linkage, but there is absolutely no doubt that the amount of new borrowing is clearly disclosed in the budget.

**Mr David Johnson:** Do you express concern with regard to the level of debt in the province of Ontario? I think it's flabbergasting what we have incurred over the last few years, such that the debt now is over \$90 billion. From an auditor's point of view, looking at the \$90-billion debt today, looking at the kind of deficits that we're going to incur unless we take a different course of action in the future, is that of concern to the Provincial Auditor?

**Mr Peters:** It would be of concern to me maybe on another basis, but it's not of concern to me in my professional capacity as the Provincial Auditor because the amount of spending, the amount of forecasting the revenues, all these policy issues—how much of the expenditures are going to be coming in through borrowing, how much is going to come from revenue—those are

all policy decisions on which I simply cannot and should not comment.

**Mr David Johnson:** The word "deficit" then is essentially meaningless, I guess, as it stands today, \$8.3 billion. If you had to define what that \$8.3 billion means in terms of the context within the budget when in actual fact we'll be borrowing \$10 billion, perhaps \$11 billion, what does the word "deficit" mean today from the context of the budget?

**Mr Peters:** It's an interesting question, and in the public accounts it certainly has a very clear meaning of just being the net difference between the revenue generated by the government in any one given year as a reporting entity and its expenditures in any one given year. That difference is the deficit.

**Mr David Johnson:** And that's what it should be.

**Mr Peters:** That's right. It's an excess of expenditure over the—

**Mr David Johnson:** But in terms of the budget what does it mean?

**Mr Peters:** Well, it seems to have at the moment a somewhat different meaning.

**Mr David Johnson:** What would be the purpose in putting out a different deficit, from your point of view? Why would the government put out a deficit that doesn't reflect the true borrowing requirements of the province of Ontario?

**Mr Peters:** From my perspective, it's merely a matter of concern, but to answer why it is being done really, I hear that the Minister of Finance will be here and ministry officials will be here afterwards. I think it would be better for them to answer that question. I wouldn't get into that realm of speculation.

**The Chair:** Our time has concluded and I want to thank Mr Peters for making his presentation before the committee this morning.

*The committee recessed from 1217 to 1307.*

#### MINISTRY OF FINANCE

**The Chair:** Our next presenter is the Ministry of Finance, which includes most certainly the Honourable Floyd Laughren, Minister of Finance; Simon Rosenblum, chief of staff to the minister; Jay Kaufman, deputy minister and secretary of treasury board; and Bob Christie, associate secretary of treasury board, controller and assistant deputy minister.

At this point in time I think the minister would like to make a slide presentation. I understand this is about a 25- to 30-minute presentation and I would ask the committee members if they would allow the Finance minister to complete the presentation and, if there's a need to, we can certainly refer back to the slides during the time of questions. Mr Laughren, perhaps you would like to proceed.

**Hon Floyd Laughren (Deputy Premier and Minister of Finance):** I am pleased to be here again. I enjoy the committee and I appreciate very much the work that the committee will be doing as it sets out on its own pre-budget process. I look forward to whatever advice you might choose to present at the end of your deliberations.

I'll try and go through the slides quickly, because it's a lot more fun having exchanges with colleagues in the Legislature than it is going through the numbers on the slides, so I will try very hard to move quickly and not cut into the time for exchanges any more than is necessary. I'm almost halfway through the pre-budget process myself, travelling around the province and listening to people, and it's the first time I've been through the exercise when there was any sense of buoyancy out there at all. It's there now and it's a much more pleasant task than it has been in past years, as I move around the province.

Why don't we get right into the slides, Mr Chair, if that meets with your approval.

**The Chair:** By all means, Mr Laughren.

**Hon Mr Laughren:** I'll give very short explanations of them in the interests of time.

Ontario's economic growth, you can see, going back to 1991 and working up through to the year—this is the country, in 1994, and you can see the turnaround quite dramatically. In the years that are ahead of us, we will have—and this is not just Ministry of Finance's projections but a consensus projection that Ontario will have the highest real growth in Canada through 1998.

Also, Canada will lead the G-7 countries and, as I just said, Ontario will be leading the country in growth as well. That just simply makes a comparison with the other G-7 countries. If I'm going too fast, let me know, please.

On the jobs side, it is the strongest growth in six years, and you can see that January 1994 was a blip where we lost jobs, but ever since then it really has been a substantial increase and there have been about 186,000 new jobs since the beginning of February last year. None of this, as you will see later, is meant to pretend there are not challenges ahead of us still, on the jobs side as well as in other areas, but at least the numbers are very positive and the strongest in growth that there has been, as I say, in six years.

If you break that down by industry, you can see that manufacturing, which is quite reassuring, is leading the pack, the service industries, construction etc. and that's important because it was manufacturing that took such an enormous hit during the recession that began in 1989-90. It's good to see that climbing back up on the manufacturing side.

The capital investment that we've insisted on maintaining despite all sorts of pressures does help and certainly supports literally thousands of jobs. You can see that the solid blue part of the graph is capital investment projects and the yellow part is the Jobs Ontario Training, which didn't start until 1992-93—you can see why it's so small at the beginning—and then any other initiatives on top of that to give us the number of jobs that are supported by capital investment. For 1994-95 it's of course projected, as the year's not ended yet.

This is projecting ahead, of course, but you can see that if we average 142,000 jobs per year, that will mean 570,000 new jobs by 1998, which is certainly encouraging, to see that job creation, when you compare it to the dismal numbers in the early 1990s. It's refreshing to see



that number going the way it is, and we think that's a sign that the recovery is not tentative so much as permanent.

We've tried to create the climate for business growth by helping businesses compete, by having government play an active role in creating jobs. This one probably needs a word of explanation because, as most of you would know, government is downsizing and the numbers of employees directly working for the government will be fewer, not more. But that doesn't mean the government can't be there, whether it's on capital investments or whether it's in job training, to help and play a role in creating jobs as opposed to going out and hiring everyone ourselves.

Maintaining the high quality of services also makes business more competitive in this province. I've said it before at this committee hearing: One message we get loudly and clearly is that the quality of our infrastructure and the quality of the workforce in this province are what make us competitive. If you look at the investment that's come in here in the last couple of years and the projected investments in the next couple of years, I think that speaks for itself, that it simply isn't a case of having the lowest wage possible or the fewest services that makes an economy competitive any more.

One of the ways in which we've maintained our competitiveness has to do with the tax levels. If you look at payroll taxes—this one's for a new employee—and keep in mind that we did provide a holiday, if you will, for new hires by eliminating the employer health tax for the first year, you can see that the solid blue is the effective tax rate. Even if you include the EHT, it takes it up a little higher, but we still have lower payroll taxes than Quebec or the US average, and payroll taxes—I don't know whether you can read what it says there, but that includes not just the employer health tax, which I mentioned, but other payroll-related deductions. So we are very competitive, more than competitive, on the payroll side.

This is the effective corporate tax rate for small and medium-sized manufacturing firms, and you can see that once again we're not the lowest. Quebec has a lower corporate tax rate than does Ontario, but as you saw in the previous slide, they have higher payroll taxes, and when you compare us with the competing American states, you can see that we are indeed very competitive.

We have tried to do what we can, while respecting the need for revenues, to cut the cost of doing business. Back in 1992 we lowered the manufacturing and resource industries' taxes; we lowered the small business rate of taxation. We are implementing what we call Clearing the Path, which is to reduce red tape for business, and we're into the first phase of that, which is for helping businesses start up, and then we move into the next stage, which is what we call unified reporting of taxes that must be paid.

That's not in place yet, but we think it will be later this year, because we get a lot of complaints, and I've never known a government that didn't promise to reduce red tape for particularly the small business community, and this is our attempt to do that. As you know, we have

frozen the average assessment rates at the WCB and with Ontario Hydro the rates have even been cut for large users, all to help us maintain our competitiveness and even improve it, particularly as we've gone through some very difficult years.

We've had, and I do get this from time to time as I move around the province, from the chambers of commerce saying that we should not provide any assistance whatsoever, full stop, for business, that that's it; we should not provide any assistance to business. On the other hand, my own view is that we should make exceptions and there are times when you do need to provide assistance to the business community, and there are all sorts of examples in this province where there are thousands of people working now who would not otherwise be working if we hadn't done that.

We have supported Ontario firms during the very, very difficult time of the recession and we have what we call an Ontario innovation and productivity service where there have been 345 firms assisted across the province. Those firms employ 18,500 and within three years that'll be up to 30,000. So that's an example of moving in and strategically providing assistance to the private sector.

When it comes to partnerships, we talk a lot about working in partnerships with the private sector and with others, and those are examples: Jobs Ontario Training, which I think is probably the most outstanding example; Jobs Ontario Capital; Jobs Ontario Community Action; Jobs Ontario Homes; the Ontario Training and Adjustment Board, OTAB, as it's known as; and then of course the sector partnership fund, which assists firms in one sector that agree to work together on projects.

Ontario's quality of life: I mentioned earlier that we do get those comments from investors about our workforce, the high education levels, generally speaking, of our workforce; the universal accessibility of our health care system; the multicultural and multilingual society that we have in this province and our support for that; the low crime rate—I think Toronto has the lowest crime rate of any major city in North America—and the relatively low cost of living. I'm trying to remember who did the survey now, but Toronto was judged to be among the least expensive major financial centres. Obviously you can find small communities, but as a major financial centre, Toronto is considered one of the least expensive.

#### 1320

This may be a bit hard to read for colleagues, but our major automotive investments in Ontario: I think we all understand and appreciate the role of the auto sector in this province. It really is enormous and investments have been kept up even during the recession and it has been most gratifying.

You can see that this goes back from 1992 through to projected or announced expansions going through to 1997 and it comes to \$5.5 billion of investment in the province. That is a huge investment, and I think we should all take pride in the fact that that's a statement of confidence in the province of Ontario to make those kinds of investments here, because they could easily be made south of the border but they're not.

The investment in machinery and equipment is at an all-time high in 1994. These are the last numbers for the first three quarters of 1994, but you can see that it is very healthy. That's a good sign as well because most of us want to see that part of our economy growing: not just the service sector but this part as well. This is private and public investment in machinery and equipment. This is the growth in machinery and equipment investment in 1994 compared to other provinces. You can see that British Columbia is a little bit higher, but then Ontario is number two at 10.1, and then going down in the other provinces. So we had the second-highest growth rate in 1994 in machinery and equipment investment.

The consumer confidence is climbing steadily, and that's reflected, for example, in our retail sales tax revenues, although we don't have all of our numbers in yet. But certainly consumer confidence is climbing and it's the highest level it has been in five years.

I thought we should take a look at the fiscal plan because there's always some interest in this subject matter. Our goal is to have a balanced operating budget in 1998—not 1999, 1998—and you can see from 1994-95 through 1996-97 the numbers on the deficit side, with the darker area being the operating deficit and then adding on the capital to give the total number at the bottom. You can see that for 1994-95, 8.3; next year, 6.5—and we're talking about the total now—and then 4.4; and then moving in 1997-98 into a very small deficit on the operating side and a surplus the following year, 1998-99, on the operating side. For many of us, that really is a critical year, when we start paying for the groceries without a credit card, if you will. We'll still have the mortgage there with the capital side. But I think that is critical, to get to that point while at the same time not decimating all of those services that we talk about in the province. So that's the plan as we now see it.

On program spending, I know people in the Legislature have a finely honed sense of history and would need to be reminded from time to time, though, just what the history is on program spending. On the left-hand side you see the 1980-81. Now, the left-hand side is nominal, which means that we haven't taken the rate of inflation into consideration. You can see 1980-81 to 1984-85, 11.5; and then 1985-86 through to 1989-90, 9.7. But, you know, it's not always fair to put numbers out there when we haven't taken inflation into consideration, so we thought we'd better take the rate of inflation out, and, lo and behold, not too much changes. For 1981 to 1984-85 it's 2.9, and for the following years, 1985 to 1990, it's 4.5 in program spending, and for 1990 through to this point it's 1.0. That's real dollars with the rate of inflation taken out. So we have worked extremely hard on getting our operating spending down, because basically it was unsustainable at the previous levels.

The deficit—and I hasten to add, no matter how you measure it or who measures it—is going down 30% in the last two years. The program spending will be down for the second year in a row, for the first time since I think it's 1942, so it's over 50 years. No other government has done this. And government overhead costs, which are all those direct operating expenditures of

running government, are down 16% in the last three years. Now, obviously the recession has made it extremely difficult, and we've had high deficits—no question about that—but while we were doing that, we weren't simply allowing program spending to run away with us. We've worked extremely hard on getting program spending under control without at the same time decimating essential services.

This shows that we've done that while at the same time providing more services to more people. You can see that the number of people in 1994 increased over 1990. For example, the number of people in colleges and universities is up 14% over 1990; hospitals—this is the number of hospital services, inpatient or outpatient—up 9%; pay equity up 117%; subsidized child care spaces up 47%; training programs 20%; and in-home long-term care up 45%.

The point of all this is that we have managed to control program spending while shifting priorities of government into these areas, and doing them more efficiently, such as the health care system. I'm not exaggerating when I say that during the 1980s health care costs went up 11% each year over the previous year. If we allowed health care to go up even 10%, that would be \$1.7 billion, which would be like two points on the retail sales tax in one year. It was simply unsustainable, and we've managed to get the operating cost down, obviously a struggle, and at the same time serve more people in the health care system and hospitals that provided more services.

### 1330

Part of the problem in all of this is the declining federal support for services in Ontario. You go back to 1979-80, and you can see that for social assistance it used to be flat-lined at 50% for all provinces. That was changed in 1989-90, and it's now down to under 30%. That's under the Canada assistance plan, of course. Under EPF, the established programs, you can see that it started going down in 1979-80. It was 50% as well. That was the condition under which they were originally set up. You can see that that's down now to a little over 30% as well. So, as a proportion of the cost of providing those services, the federal government has not been there.

I appreciate the fact that the federal government has its own set of problems, but I want to tell you, don't tell me that Ontario hasn't assumed more than its fair share of the burden of the problems of the federal level. You can see just using social assistance as an example, the federal contribution was 50%; now it's 29%. At a time when the recession hammered us, at a time when they made changes in UIC which meant more people were coming on to social assistance earlier, it was like a double whammy to us, and the costs of course went up considerably.

This is in 1994-95, and if this doesn't point it out graphically, nothing will. There are the other provinces getting 50% of social assistance dollars, and BC and Ontario are getting 31% and 29% respectively. So you can see why it causes us a problem. That's become an equalization program, and we don't think it should be an equalization program.



There are many fiscal challenges in the federal budget. One is, will it support jobs and growth or will it undermine Ontario's economic recovery? Will it help maintain health care, education and social services through its national standards and support? Will it end the unfair treatment of Ontario and provide Ontario's fair share?

I know that they have their own problems in Ottawa with the federal deficit and so forth. I also know that the problem that we faced in 1993, when we were staring a \$17-billion deficit in the face, we rolled up our sleeves and we took some very difficult measures, extremely difficult.

(1) We raised taxes by \$2 billion.

(2) We took \$4 billion out of committed expenditures for that year and ongoing years. As a matter of fact, it's annualized into a higher number than that.

(3) We imposed, tried to negotiate but ended up imposing, the social contract, which saved \$2 billion.

That's \$8 billion that we decided we would wear along with the public servants in the province and the people who pay the taxes. But we didn't ask the municipalities, the school boards, the hospitals. As a matter of fact, the social contract saved them that problem. I'm not saying everybody liked it, I'm not saying it was popular, but we did it. We did it, and we faced proportionally as big or bigger a problem than Ottawa is facing today. So I can tell you that we're going to be watching very carefully.

At the end of the day, I think we took the balanced approach. You might expect me to say that, that's fine, but I really think we took the balanced approach. We didn't zero in on any one of our transfer partners, and we expect that Ottawa will deal with its problem fairly and proportionally, because if you look back, Ontario has made a major contribution to the Confederation in the last few years with what's been done to us on the Canada assistance plan and established programs.

So we feel very strongly, as we head into the spring of 1995, that the federal government—and we assume that the federal government understands this. Mr Martin mentioned it in his budget of this year, and I think Mr Axworthy mentioned it in the fall, that whatever is done has to be done fairly. I think there's an acknowledgement that Ontario has paid a disproportionate price in the years gone by. We'll be watching carefully to make sure that doesn't happen, because that would be unacceptable.

We've opened up the consultations. The first year that we formed the government we conducted the pre-budget consultations the way it had always been done, where a lobbyist group came into the treasury boardroom and sat down with the Treasurer of the day and said, "This is what we think you should do," and that was it. They'd leave and somebody else would come in. It was always one on one.

Now we've said, "No, that's wrong; that doesn't make sense." First of all, people coming in don't have to listen to what other people's problems or demands are. So now we have a group around the table almost as big as this group. They listen to each other and make their case, and I think that's very positive. And we move around the province. We're going this year to eight regional forums

and four in Metropolitan Toronto, not all at Queen's Park either. The MPPs are doing some consultations as well, and of course this committee is holding an important set of hearings and will be bringing forth recommendations as well.

We are seeking advice on some of the challenges, and I'd appreciate your advice on this either today or later when you are doing your report at the end of your deliberations.

The whole question of the youth unemployment rate being double that of people over the age of 25: That's troublesome and we need to work harder on that. I don't pretend there's an easy answer, that government's got all the answer on this. We really are looking for help and advice on this.

The better distribution of hours of work: Perhaps some of you followed the Arthur Donner report to the federal government on distribution of work. What is the solution there? People are divided on this, and I don't think it's a particularly partisan issue. I know that some labour people think differently than other labour people and some management people think differently than other management people, but is there a better way of distributing hours of work? Right now it's 44 hours, above which you have to pay time and a half in Ontario. Is that the right level? Is time and a half the right amount? So those are the kinds of things I'd appreciate your advice on.

We need to break down the barriers for those who want to work. There are still too many people on social assistance who don't want to be there. How do we get them back into the workforce? We think that the Jobs Ontario Training was a beginning. There are about 65,000 people on Jobs Ontario Training programs now and 80% of those stay in that job at the end of the first year. After the end of the first year they're still there, which is very good, but there is a lot more to be done.

Finally, getting workers the right skills: How do you do that? How do you anticipate what the right skills are?

On the deficit and services, once again seeking your advice, there are still some very tough fiscal choices remaining. Pressures are still there in the system, believe me. How do we restructure the broader public sector while delivering high quality of services? We all know that the social contract ends on April 1, 1996, and the \$2 billion that's saved from the social contract isn't coming back into the system so there needs to be some very thoughtful work done, and I would hope quickly done. We'll meet our targets on the social contract savings next year, but we're not the employer in the municipalities, the universities, school boards, hospitals and all those other agencies out there. That's going to happen.

How do we meet the increased demand for services? I live in a community where health care is always an issue. How do we meet the continuing demand for expansion of health care services with limited resources? How do we do that? That's just one example; you've got education as well.

How do we cope with the federal budget? I'd appreciate your views on that. What do we do if the federal government reduces transfers across the board? How

would you handle it? If you've got some advice on that, I'd very much appreciate it. Some of you may have better contacts in Ottawa than I; who knows?

So all of this is within the context of meeting our fiscal targets and, like anyone else, we're under a lot of scrutiny on our numbers. I'm sure that the Provincial Auditor this morning had some comments to you about how we deal with capital. I understand that. He thinks we should deal with capital a different way, and I can understand his sense of frustration, not just at us but at the Public Sector Accounting and Auditing Board. Their principles are not yet, I gather, very well defined as to how capital should be dealt with in the public sector. I believe we're doing it the way it should be done, by amortizing it and reflecting the worth of an investment over the number of years that it provides value and wealth to the province, but I understand that he would do it differently.

1340

On the public accounts, I think you would acknowledge that he signed off on our public accounts which he audits; he signed off without reservation this last fall. He would wish that we'd do the budget differently, I gather. He doesn't audit the budget, of course—we all know that—but at the same time we've agreed with him that there needs to be a comparison and we fully intend to do that in the budget, to make a comparison of the way in which numbers are reported.

At the end of the day, it's these other challenges, I think, that will determine what kind of job we do and not how you fit it into a certain set of accounting principles. At the end of the day it's how we meet those challenges out there to get our young people back to work and keep them working and keep investment coming into the province and providing the appropriate level of services.

So we have been making some tough choices. All the numbers are moving in the right direction, no matter how you measure them. We've put billions into public and private investment. The quality of services: I think most people would acknowledge that we've maintained the level of essential services. We truly have a highly skilled workforce. The quality of life in this province is rated as one of the best in the entire world. We have a competitive tax system and we have both consumer and business confidence at close to all-time highs.

That's the picture of where we're at now, and I would very much appreciate your advice on some of these challenges. I do look forward to your report and I appreciate this opportunity very much.

**The Chair:** Thank you, Minister Laughren. We have about seven minutes per caucus and we'll start with Mr Kwinter.

**Mr Kwinter:** Mr Treasurer, thank you very much for your presentation. Each year that you come I raise the same question that I'm going to raise now. In your first budget you showed your five-year projection of where you thought you would be on the deficit. You did not meet one single target of the years. My major concern is that the figures that you use are always on the small-liberal side in that. To give you an example, in your

projections you say that over the next couple of years the growth in the economy is going to average about 4.3%. Today we had representatives of the Royal Bank come in and say that they think it's going to be 3%.

The problem I have is that this year we've only heard from one financial institution that's given an estimate of where it thought the growth was going to be, but in the past we've had several and they range. I understand it's not an exact science, but they do range. But invariably the treasury office is at the very high end, not sort of in the middle, not near the high end, but absolutely at the high end. You're always the most optimistic, and unfortunately the reality does not meet your optimism. The same thing on interest rates. So when you show your projections you show the best-case scenario and invariably we don't have a best-case scenario. We have somewhere below that.

It would seem to me—and again I make this statement every year—that you would act in a more small-conservative way and say: “Here is what the range is. In order to be fair and in order to give us a chance to show truly what we expect, we're going to be in the middle. We're not going to be as low as some project; we're not going to be as high as some project.” But you're never there. You're always at the very high end, far exceeding anybody else's projections, and you never meet them. Could you comment on that?

**Hon Mr Laughren:** Yes. First of all, we tend to be in the middle of the forecasts out there, not at the high end. That's simply not the case. I just saw the Royal Bank numbers this morning and I don't think they're that different. Also, our inflation rate is projected to be a little lower than what they think it'll be, I believe, and that, if anything, is on the cautious side when it comes to what our projected revenues will be because if the inflation rate's higher, presumably our revenues will be higher too.

Secondly, I think you're being a little unfair, I'm sure not deliberately. We did hit our budget target last year, as I recall.

**Mr Kwinter:** Depending on whose books you read.

**Hon Mr Laughren:** No, no. It really is not accurate to say that we're always at the high end. That's not the case. We really do tend to be in the middle of the private sector forecasters out there. We don't play that game of being at the high end. What does that get you at the end of the day if you do that deliberately? That doesn't make sense. You just look incompetent, God forbid, when you do that, and that's never the intention.

**Mrs Caplan:** I'd like you to answer a question that I think anybody who's been watching the proceedings will want to know. The Provincial Auditor said this morning that by insisting on maintaining two sets of books or two different ways of reporting, you were adding to the confusion, and I'll use his words, that the credibility of your budget was in question and that it was important, for better accountability, to present a clear picture.

He said, and we all heard this morning, that you've changed the way the books have been done and that this took quite an effort on behalf of the Treasurer, and you worked very closely with him, that your reporting to



public accounts last year reflected the better approach that the Provincial Auditor recommended. The Provincial Auditor said you could report your budget in a way that was consistent with your reporting to public accounts, and he said that you were going to be doing a reconciliation but that this was not sufficient and wasn't the best way to do it.

The people of the province of Ontario look to a number of indicators for confidence in the government. One is what the Provincial Auditor is saying to you, the advice he's giving to you, and frankly a second one is your credit rating, how the bond agencies and so forth see you.

What the Provincial Auditor said is that you are adding to the confusion. You're not fooling the bond agencies because they all add back in the numbers that the Provincial Auditor suggests. So the question is, why are you doing it the way you're doing it? Why are you insisting on having a set of books that the Provincial Auditor says is not the best way to give the people of Ontario the accountability that the Provincial Auditor believes is in their interests?

**Hon Mr Laughren:** I think that's a most appropriate question. First of all, we need to keep in mind from time to time who changed what. The Provincial Auditor has changed the way in which he wants our books reported. I'm sure you would agree with that, that he's asked us to move off the way in which it was done by previous governments—

**Mrs Caplan:** That's right.

**Hon Mr Laughren:** —and our government. We've said okay, and in the financial statements that were tabled in the fall that's exactly what we did and he had no reservations whatsoever. The rating agencies, forever, just do a global number. I think they even throw in the WCB and Ontario Hydro, because we guarantee Hydro's debt. They look at the whole picture. If you were to ask a rating agency official, he'd say that's no problem. There's no confusion at the rating agencies. They just have their way of judging us and that hasn't changed.

I've got no problem with the Provincial Auditor seeking that this be done, but I would remind you that one of the differences is what they call consolidation and accrual. It would be hard to be terribly precise in the budget on the accrual part because you don't know the final numbers when the budget would be brought down, I wouldn't think. But more important I think is the reporting of capital. I believe that what we do with the capital is the appropriate way in which to report capital. The private sector's done it forever, as far as I know. I'm not an accountant, but that's how the private sector does it and that's how we do it.

I appreciate the fact that he said the comparison that we'll do in the budget will be helpful. I think that's what you said he said; I didn't hear him. That's what we intend to do, so I don't think there'll be any problem.

First of all, the one set of books he audits is in the way he wants it done. The set of books he doesn't audit because it's a planning document, the budget, he doesn't audit anyway, but we're going to do it the way we've

always done it and we're going to put a comparison in there to put everybody's mind at ease if they might have uneasy minds.

**1350**

**Mrs Caplan:** He says you're doing the opposite. Rather than putting—

**The Chair:** Your time has expired, I'm sorry.

**Mrs Caplan:** He says you're adding to the confusion by not doing what he asks you to do; you just present it in a way that nobody will understand.

**The Chair:** Mr Johnson, would you like to pose your questions?

**Mr David Johnson:** The auditor is simply saying, "Tell it like it is." He's saying that there are grants to the crown corporations, grants that you're making for educational purposes, perhaps water purposes, real estate purposes, that you're calling loans, but in large part the auditor cannot see these loans being repaid. In fact, they're grants and he's saying to call them grants. If they're grants to education, to universities and colleges, call them grants. That seems to be the prime source of difference. He's saying that the real deficit in the province of Ontario this year will be \$2 billion higher than your forecast. I guess the question is: Why not reflect the real situation in the budget of Ontario? Why not reflect that these are really grants?

**Hon Mr Laughren:** I guess there are a number of reasons why I think we're doing it the right way. One is that we are isolating the operating side of the budget. I think it's terribly important that for the first time we say, "This is the operating deficit." As I said earlier, I think everybody understands why a family has a mortgage; what people don't understand or don't appreciate is when you start buying your groceries on a credit card. The Premier has used this analogy lots of times and I agree with that. We're isolating the operating side.

Other governments haven't done this. As a matter of fact, Mr Johnson, you did us a service and you made me scratch my head. We went back and we got some numbers that go back a few years and show what the difference would be if you went back and tried to roll things in together the way the auditor's doing it.

You can see, for 1993-94, \$10.8 billion. Now, this includes the reported, the top line—I'm sorry, I should back up a bit. The top line is the reported deficit or surplus, the next line is the adjustments for accrual and consolidation, which he's asked for, and the bottom line is what it would be then with that adjustment.

You can see how for 1993-94, it goes from \$9.3 billion to \$10.8 billion, up \$1.5 billion, and work all the way back and you'll notice a remarkable thing: In 1988-89, it almost doubles the reported deficit, \$1.5 billion to \$2.9 billion, and go back even further.

So you can spin out the numbers—this was in your question, Mr Johnson, that you wrote to me. You can see that any time, if you wanted to go back—now, there's a caution on those numbers because it's not always easy to be scientific about accrual, as I said earlier, particularly dealing with the pensions issue, pension liabilities. That's the kind of thing it shows.

It really is a case of us following exactly what the auditor wants on the audited books of the province, and the planning document known as the budget—even the word “estimate” should tell you something—as we head into the budget process, is something that says, “These are what our intentions are for the forthcoming year.”

The auditor doesn’t audit the budget, but nevertheless, in order to provide some comfort to the auditor, we are going to put a comparison in the budget in the spring. That should remove any problem at all.

**Mr David Johnson:** The auditor is simply saying, “Reflect the real situation.” What he’s saying is, “Why not set the deficit at the amount that is borrowed in the current year, the amount that is added to the debt of the province of Ontario?” That’s what people understand. The deficit figure you put forward has no relation to that, it’s considerably lower than that. I look at one of the slides—

**Hon Mr Laughren:** But you would agree the budget has all the numbers in it?

**Mr David Johnson:** Well, yes, if we go through—

**Hon Mr Laughren:** No, no.

**Mr David Johnson:** —but it’s not a clear picture, and that’s what the auditor is saying. Sure, if you want to weed through all the information you can find it, but the picture that’s being put forward to this committee, to the members of Parliament and to the public is not a true reading of the deficit.

I look at the slide you’ve given us with regard to the budget and balancing the budget by 1998 and it won’t work; it clearly won’t work. First of all, the deficit that you have indicated for this year at \$8.3 billion is not \$8.3 billion; the auditor says it’s \$10.5 billion. The deficit for 1995-96, next year, the Royal Bank said this morning will be \$10 billion.

The problem, and perhaps you could comment on it, is that your deficit numbers are too low to start with, that they don’t reflect reality, and secondly, that the growth of 4.3% that you have estimated over the next four years, I guess, is unrealistic. We have yet to hear one forecast of growth in the province of Ontario—I count the Royal Bank, I count the other deputation this morning, the Canadian Manufacturers’ Association—you won’t find anybody who’s forecasting 4.3% growth; 3% is about the average that is being estimated for growth.

Your spending has gone up every year, so how are you possibly going to balance the budget? Your spending continues to go up in total. I’m not talking about some portion of your budget, but the total bottom line portion of your budget. Your spending has gone up each and every year. With the economic growth at 3% and where we start here today, at a \$10.5-billion deficit, you cannot balance your budget in four years with that program.

**Hon Mr Laughren:** I think we can. Be fair about the private sector. I think they’re just now starting to ratchet down some of their projections, and we’re not at the budget yet. Because of interest rates, the problem with interest rates going up, they’re starting to say, “Perhaps this could cause a reduction in the growth rate.” I don’t know. I still think we can achieve our numbers. Our

numbers this year have been higher than people thought they were going to be as well this year.

**Mrs Haslam:** I’m going to ask a couple of questions and I’m going to start off with something that means a lot to me, and that’s the youth of the province. I have two concerns. When I look at the new jobs, 570,000 new jobs, 1995 to 1998—that’s in your slides—one of the questions I have is that you’re saying an average of more than 142,000 jobs per year, and I’m asking, is that a good estimate and can we maintain that 142,000 jobs per year? That’s number one.

Then I go back to your back page, where it says youth unemployment is double the rate of those over age 25, so in other words youth unemployment is actually double what adult unemployment is. That is of concern to me. I want to know why that is, what went wrong. I think it’s critical to concentrate in those areas, because rather than a lost generation, we should be looking at a generation going into challenging and useful jobs. That’s my first question, and I have a second question.

**Hon Mr Laughren:** Can we achieve the job numbers? If we don’t achieve the economic growth and are not able to sustain the healthy economy, no, of course not, but we think we can. I’ve always said that there are clouds on the horizon. You’d never know it by this year. We’ve had really tremendous growth this year and we’re all very excited about that. But there have always been clouds on the horizon, called interest rates, called the US economy—the US economy’s just clicking along very nicely, thank you, a much lower unemployment rate than we have—but there’s no question that if interest rates get too high and if the ghost of John Crow is still stalking the halls of the Bank of Canada, then that could cause us some problems at the end of the day. But we’re hoping that this is not the case.

Youth unemployment: You’re quite right that if we have an unemployment rate now in Ontario of 8.4%, it’s about double that for young adults. “Youth” is probably a misnomer; it’s 16 to 24. That is something I put on the screen as a challenge, because I don’t think we’ve got the answers there yet on youth employment. We can do what we can to try and encourage money on training, to encourage people to stay in post-secondary institutions, to try and make better links between post-secondary institutions and the workplace through any number of possibilities, none of which is free, of course, but I think we’re paying and will pay a big price for high youth unemployment. I’m telling you, if I had to prioritize challenges, I think that would be number one. A 17% unemployment rate for people up to the age of 24 is really unacceptable. We’ve got a lot of work to do on it. I really hope the committee will think about that. I don’t expect an immediate answer, anything like that, because if it was easy, we’d all have the answers, federally and provincially.

1400

**Mrs Haslam:** I’m glad to see you’ve got that under challenges as number one because I really am concerned about that.

My second question: When we had Mr Leo de Bever in today, I picked up on some of the things in his presentation and one of them was, “Slow recovery directly



linked to severity of pre-1990 excesses" in spending. Then he goes on to talk about, "Canada consistently consumes 3% more than it produces," and he talks about excess consumption resulting in the current account deficiencies and eventually a lower dollar. I clued into this in your report because you had something called, "Meeting increasing demand for services with limited fiscal resources."

The question I asked him and the question I may ask you is, do we have to lower our standard of living? This seemed to be what he was indicating. He said, "Party platforms published to date are unrealistic." I asked him what was realistic and I'm asking you what is realistic when you look at the demand for services. Do we have to educate more or what is it that we have to do to be sure we're getting the message out about those services and how they're tied to tax dollars?

**Hon Mr Laughren:** That phrase does have a certain ring to it. "Pre-1990 excesses"—was that the phrase he used?

**Mrs Haslam:** Not my words.

**Hon Mr Laughren:** No, no. I know you wouldn't say that.

**Mrs Haslam:** No, I wouldn't say things like that.

**Hon Mr Laughren:** I'm not a professional economist, I should reassure you, but at the same time I think we do not need to lower our expectations or our standard of living if we do things smarter than we've done them in the past. But at the same time we can't just, every time there's a new demand, a legitimate demand for a program, simply layer it on top. I'll give you an example, if I might.

The other week Mr Silipo announced more money for people who have to live at home with disabilities. He announced \$6 million more. Who would quarrel with that as a priority? I don't know of many people who would quarrel with that. But we've got to find \$6 million in the health care system to pay for that, or somewhere else in the system. That increasingly has to be the mentality of people in government and the population at large, because the day is gone—it'll probably sound like a partisan comment but it's not really how I mean it—we simply can't continue what we were able to do in the past. I think any government would have done it, so this isn't a finger-pointing exercise on my part, but it was if you had a problem and the money was there, you threw money at it. That day really is gone. We've got to do things smarter if we want to maintain the same quality of services.

The other example, and then I'll stop talking, is the move to long-term care from institutionalized care in the health care system, because that's such a big portion of our budget. Moving there, you get better service and you get more affordable service and do things smarter than we've had to do them in the past.

**The Chair:** With that comment, I'd like to thank Mr Laughren. We've concluded our scheduled allotment of time for the minister before the committee. Thank you very much. I understand that ministry staff will remain to field questions from committee members.

**Hon Mr Laughren:** Thank you. I appreciate that.

**The Chair:** Could I have the attention of the committee members? At this point it might be appropriate if we proceed with, let's say, blocks of 20 minutes per caucus and see where that takes us, and revisit that in an hour. Does that sound suitable to everyone?

We have a new group of representatives of the Ministry of Finance. I'd ask you gentlemen, as you are all gentlemen, to please introduce yourselves for the purposes of Hansard and the committee members so we'll all know who you are.

**Mr Bob Christie:** I'm Bob Christie. I'm the associate secretary at treasury board.

**Mr Steve Dorey:** I'm Steve Dorey. I'm the assistant deputy minister of economic policy.

**Mr David Trick:** I'm David Trick. I'm the assistant deputy minister for the office of the budget and taxation.

**Mr Peter Wallace:** I'm Peter Wallace. I'm the director of expenditure management and reporting, with the treasury board division.

**The Chair:** Thank you very much. We're going to proceed now with the Progressive Conservative caucus.

**Mr Carr:** How much time? Would it be better to break it up so we can listen to them?

**The Chair:** I think you were shaking the minister's hand when I explained that we were going to go in 20-minute blocks of time and after about an hour we'd revisit that and see how we would like to proceed from there.

**Mr Carr:** I apologize. You're right. I was shaking his hand and wishing him luck.

**The Chair:** That's okay. Please go ahead.

**Mr Carr:** I'll throw my question open to whichever of the gentlemen wants to answer. In the discussions this morning and from the economists who came in, they said we've done a poor job, in the province of Ontario, dealing with the deficit, relative to other provinces. They used two examples. He didn't make any judgement, but he said that in Alberta they took an expenditure-side approach where they believe—you would also probably not be surprised—that we don't have a revenue problem, we have a spending problem, and that cuts can be made to get us closer to a balanced budget through spending cuts. But to be fair, he also contrasted Saskatchewan, which has done it with increased taxes.

I'll take the approach of somebody who may be in support of the New Democratic government, who believes all we need to do is increase taxes on the rich and on corporations and we would have all the money out there to pay for all these programs. I don't know who the expert is among the four of you on taxation, but let me ask a question from the standpoint of an average person, maybe part of the New Democratic Party, who believes, "Why don't we just tax the rich and tax corporations and there'll be enough money out there." Why can't we do that?

**Mr Christie:** I think there were a couple of things in the question that perhaps I ought to address. One is to comment upon the experience in Ontario versus, say,

Alberta, or for that matter Saskatchewan, and then to comment a little bit on business taxation and the role it's played in Ontario deficit planning. I'll ask Dave to make some comments on that as well.

One of the main things I would flag for your attention is the impact of the recession of 1989-90, and moving a little bit into 1991, on Ontario versus other parts of the country. If you look back at the figures from that time, and this is I think indicative of the different fiscal circumstance that Alberta faced from what Ontario faced over the last couple of years, that summary statistic is that roughly 80% of the jobs lost, from the employment peak to the trough of the recession, were in Ontario. Of course, that has consequences in terms of the impact of the recession on personal income tax revenue losses. It has implications in terms of social assistance costs. That, coupled with some of the federal payment developments which the minister highlighted, which were focused on Ontario and which did not affect Alberta, led to quite a different situation in terms of the sort of deficit track the two provinces were able to undertake.

1410

On the second part of the question, which I believe had to do with the role of business taxation, to the best of my knowledge, business taxation has, by and large—and I'll ask the tax expert on my right to follow up and correct me where I'm in error—played little or no role in deficit reduction in Ontario over the last few years. The slides the minister showed earlier summarize the business taxation moves that have been undertaken, and they have been primarily in the form of tax reductions. Both small and large manufacturers' income tax has been reduced; the employer health tax was reduced last year. So rather than those taxes having been increased as a revenue-raising measure, I think overall the direction has been to moderate those in terms of creating a competitive climate.

**Mr Trick:** Bob's exactly right on those points. Let me just add a couple of things about what has been done on taxation over the last several years.

As Bob said, the general direction has been to try not to increase taxes where there is no good reason to think that that would support economic growth. The starting point of the discussion has to be that not only do we have a deficit problem, we also have a jobs problem and an economics problem, so there's a certain balancing act in terms of what you can do on business taxation.

Mr Laughren's slides were showing that the sort of benchmarks we use on business taxation are not just other provinces but also in the United States, where we compete for investment locations. That's a somewhat different situation from, say, Alberta or Saskatchewan, where much of their corporate revenues come from resource industries, which typically are not going to relocate right across the border.

**Mr Carr:** Only about 12% of our revenue comes from corporations in the province, as I look at our figures. Is that correct?

**Mr Trick:** It would be about that.

**Mr Carr:** Where about \$3.9 billion out of \$33 billion comes from corporations. So you can increase: You could

increase 100%, 200%, and you would get very little revenue on the corporation tax side. Isn't that one of the reasons you probably didn't do it?

**Mr Trick:** As a matter of arithmetic, that's correct. Any—

**Mr Carr:** That's right. Sorry for interrupting, but I won't get my 20 minutes in if I don't; I don't mean to be impolite. And isn't that the same in the personal income tax rate, the old theory that we'll just tax the rich? If you look at the revenue of \$14.3 billion, the bulk of that comes from the middle class, the average person. Is that why you couldn't increase the tax rate for the rich people and pay for all these programs? Wouldn't I be right in saying that?

**Mr Trick:** Clearly you do have a problem if you define "rich" as being a very small share of the population.

**Mr Carr:** Say over \$50,000. Use that as a cutoff.

**Mr Trick:** Fifty thousand is roughly the average for the tax filers in Ontario. What Mr Laughren has basically tried to do is that on the one hand we have increased personal income tax rates, and on the other hand—

**Mr Carr:** And a surtax on anybody making \$50,000—

**Mr Trick:** A surtax in particular.

**Mr Carr:** —which is the average income.

**Mr O'Connor:** Let him answer, Gary.

**Mr Carr:** I'm clarifying what we're talking about, because I left it open-ended.

That's what I'm saying. The original theory is that you put a surtax on the rich. What we had to do to get the revenue we did is put a surtax on anybody as low as \$50,000, right?

**Mr Trick:** The surtax starts at that level and then there's a second tier that starts at about \$64,000 or \$65,000.

**Mr Carr:** And we did that to get the revenue we needed, right? That's why we did it.

**Mr Trick:** Right.

**Mr Carr:** Right. So what we're saying here is that where our revenue comes from right now—I think we've clarified that you can't tax the corporations any more, there are no more rich to be taxed, so wouldn't that lead to the assumption that now, if we have to hit the middle class, which does not want a tax increase, there is no more room for increase in taxes in this upcoming budget? Would I be safe to say that to you gentlemen right now?

**Mr Trick:** I think Mr Laughren's already on record as saying that he doesn't want to see tax increases in this budget.

**Mr Carr:** And you'll be recommending that to the minister as well?

**Mr Trick:** Well, that's his decision, but yes.

**Mr Carr:** I've had a chance to meet with you, and you're rather intelligent. I hope for the last few years you've been telling him that, but he just hasn't taken your advice. But I won't put you on the spot.

In terms of expenditure, I'll give you an example of



welfare reform. I'll ask you this open-ended. How much will we spend on welfare this year in the budget? What are the numbers we're at in terms of billions? Does anybody know that figure, for social assistance? It was 6.2, probably heading to 6.7. Any idea, ballpark, what we're looking at?

**Mr Wallace:** It's 6.3, I think.

**Mr Christie:** Yes. Peter indicates that social assistance itself would be around \$6.3 billion.

**Mr Carr:** One of the things the Minister of Finance didn't talk about is how we've increased the rates, and in all fairness, it wasn't even the NDP government, it was the previous government that did that. Our rates are 30% higher than any other jurisdiction.

One of the things we've said is if you take the seniors and the disabled out, and the people with small children, and reduce the rates to 10% higher than any other jurisdiction, the savings would be in the neighbourhood of \$1 billion. So instead of \$6.3 billion, we'd be at \$5.3 billion. Why wouldn't we do that?

**Mr Christie:** I'm not familiar with that calculation.

**Mr Carr:** Do you have your own? What would your calculation be? If we reduced the rate from 30% to—

**Mr Christie:** I haven't done the calculation. I'm not clear on what's happening to shelter allowance in that calculation. My understanding of the figures is that because the cost of housing in Ontario is quite a bit higher than that, on average, in the rest of the country—

**Mr Carr:** But not 30% higher.

**Mr Christie:** Certainly higher.

**Mr Carr:** Even if we went to 10% higher in that group, the amount would be substantial. So you're saying you don't know those figures, whether they could be correct and so on?

**Mr Christie:** No. I haven't seen that calculation.

**Mr Carr:** So I take it nobody in your ministry is looking at any reform of the welfare system in that regard, if you haven't looked at the figures.

**Mr Christie:** We haven't looked at those particular calculations. We're certainly tracking the social assistance costs.

**Mr Carr:** Would Comsoc be doing that? Would it be their responsibility to say, "If we reduce the rates, this is how much we could save," or would it be you guys in Finance?

**Mr Christie:** Typically, the policy around that is done at the Ministry of Community and Social Services, the Ministry of Finance will deal with fiscal issues around that, and we'll work with the ministry where both fiscal and policy matters come together on something like social assistance.

**Mr Carr:** I want to talk a little about Alberta as well. I mentioned this morning that Alberta has done it on the side of spending. As you know, their provincial portion of personal income tax is much smaller. I say about 30%; it's probably a little lower than that. Their provincial personal income tax rate is lower and they do not have a sales tax. So isn't it true to say that our problem of revenue offloading from the government can't really

stand up when you look at a province like Alberta? Sure, they get some money from the federal government as well, but their income tax rate is about 30% lower and they don't even have a sales tax, which for us represents—what?—27% of our revenue comes from the sales tax, 8.9% out of 33% if my quick math is good, rounded off. So they have 27% less revenue than we do by having the sales tax, and they've been able to balance it on the spending side.

Some people on the other side would argue, but their major expenditures to get the deficit down have not created problems any more than they it has here in Ontario. You can argue that Ontario has it, but we have not seen the crisis. That would lead me to believe that we do not have a revenue problem in this province but that we have a spending problem.

As people involved in the government, I guess you can't go out on a limb against the government, but as I've outlined it—which I may not have done clearly, but hopefully I have—looking at it from that standpoint, how can we say in this province that we have a revenue problem? I don't believe we do; I think we have a spending problem. Where in my argument am I wrong, or am I wrong?

**Mr Christie:** If I could add perhaps one dimension to the comparison with Alberta, while income taxes are lower and sales tax non-existent in Alberta, their access to resource revenues provides a very large portion of their budget. I don't know, offhand, how large, but it's certainly very substantial, perhaps the single largest revenue source in the province and one that in Ontario really doesn't exist at all.

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**Mr Carr:** But we've got corporation taxes, with the major manufacturers. As you know, you can't have it both ways. We have the major manufacturers, so we get a higher corporation tax.

**Mr Christie:** Alberta has a corporate tax that's quite similar to Ontario's, so we don't differ all that much in that regard. In terms, for example, of the revenue calculations used in the equalization program, where the federal government measures the revenue-raising capacity in each province, Alberta tends to come in at about 120% to 125% of the national average and Ontario's just 101% or 102%. So Alberta, largely because of the oil and gas, has a revenue-raising capacity that is substantially in excess of that of Ontario. Some of the ways in which they deal with that are to have no sales tax and to have a lower income tax, and that's in a way a kind of dividend, or reflects the presence of oil and gas revenues in that province.

So an element-by-element comparison of personal income tax and retail sales tax in the two provinces I think is a little difficult because the situation is so different on resource taxation. That's the only point.

**Mr Carr:** Of course, as you know, many provinces, including Newfoundland, are now taking the tax route to attract people; you pick up the Report on Business and you see the premiers. I think the feeling is that in other jurisdictions, regardless of whether it's a Liberal, like

him, and Frank McKenna down in New Brunswick, who's a Liberal, they're realizing that lower taxes mean more jobs.

I want to get back a bit to the spending issue. From 1985, if you look at where spending has gone versus the rate of inflation, and I think the minister talked a little about it, in the mid-1980s to late 1980s we spent double and triple the rate of inflation when the economy was expanding and the revenues were coming in. That isn't to fault anybody. The Liberals were the government, but I think the Treasurer or the Minister of Finance would be the first to admit that he sat in the House and pushed them to spend more and more and do even more.

**Mr Wiseman:** So did the Tories.

**Mr Carr:** Not like the NDP; I can tell you that much.

If we look at where we were spending in 1985, adjusted for inflation and the increased population—with inflation put in because, as you know, when you put the figures down for real growth versus inflation and so on, it goes up and down when interest rates in the early 1980s were 21%. But if we'd kept on the track of 1985 when our government left office, we would be spending, for the same amount of services, probably \$8 billion less than we're spending today. That would take up a big portion of our deficit.

I think if you ask the average person, "Were you better off in 1985 in health care, education," whatever, they wouldn't see a great difference from what was happening in 1985; some would even say worse, but let's for argument's sake say it was the same. So how can we say to people that all this spending has helped when in fact, if we had kept to the rate of inflation and had been spending at 1985 levels, we would have a deficit significantly less and we would still have the programs there? How come we spent all this money and ended up worse off 10 years later?

**Mr Christie:** I'm not sure what the question is.

**Mr Carr:** How come, in 10 years of all this spending, things have gotten worse?

**Mr Christie:** If the real level of spending, say in 1995, were at the level it was at in 1985—

**Mr Carr:** With inflation and the population growth, we'd be \$8 billion less.

**Mr Christie:** I can't do those numbers off the top of my head. If it's \$8 billion—obviously, demand for services, particularly the impact of the recession, has meant that some of the pressures, particularly in the health care area where demand tends to grow more rapidly than the rate of population growth, and certainly through the recession when social assistance costs and caseloads grew at 15%, 20%, 25% per year versus 1% to 2% per year in population growth terms, I think it's reasonably safe to say that a constant real spending per capita profile through that time period would have meant a significant and visible reduction of services, particularly in health and social services, given the demographic drivers in those two areas.

**Mr Carr:** If you look at welfare even during the period of rapid expansion in the late 1980s, number one, the caseloads went up. If you look at the graph, the

problem wasn't the caseloads, it's the amount we spent because of the increase we gave them. If you look at it, and we'll take 1987 as a year, the caseloads, even during the period when you think they would go down when we had the largest economic expansion of any of the industrialized world during the late 1980s, actually went up and of course the amount we spent on it went up dramatically. So again, it's a case of not having a recession. The amount of our welfare cost went up dramatically, and then of course when you did hit the recession and more of them went on, again it skyrocketed.

But isn't it the case that our problem with the social assistance isn't the fact of the number of people on there but the fact of the rates that we are paying people that has made the increase go from where it was to \$6.3 billion? Isn't that the reason we have the increased costs that we have, not so much the caseload but the amount we are spending on the individuals?

*Interjections.*

**Mr Carr:** Be honest. If I'm wrong, say no. The others are saying it isn't that. I want to hear from this gentleman. Be honest with me and tell me what you think.

**Mr Christie:** Certainly over the last five years I think it's safe to say that a significant portion—probably more than half of the growth in cost certainly has been caseload.

**Mr Carr:** Half has been caseload and half has been—

**Mr Christie:** More than half.

**Mr Carr:** Okay. What percentage?

**Mr Christie:** I have a figure of 70% in my mind. I don't know where that's from. I can't point you to a piece of paper that says that's the right number.

**Mr Carr:** The ballpark. Okay.

**Mr Christie:** Certainly some of it is due to induced changes in duration on the rolls as a result of the recession and, in some cases, to federal unemployment insurance changes, which have caused people to spend less time on unemployment insurance and therefore have a longer duration on welfare and some is due—and again, I don't know the fraction, but it's a relatively small fraction, less than a quarter I would think. There have been some studies on this and I think we can look for those studies and see if we can get specific figures for you, if we have them available.

**Mr Carr:** The federal government, as you know, had no control over what happens to welfare rates and that's why a lot of the cutbacks that the Premier and the Minister of Finance talk about—blaming all the downloading from the federal government. What happened is, the rates were increased and the federal government had no control over it, so the amounts were skyrocketing. Here's a government—and as we heard today, they were bleeding to death with a deficit—that had no control over it and it was an open-end funding.

Isn't it true that what the federal government said to the provincial government is, "You have to control it otherwise we will cap you"? That wasn't done arbitrarily without discussions, and then for whatever reason—and it probably wasn't even the NDP government—the



government said no. I don't know how many of you gentlemen have been back that long, but the fact of the matter is that the reason the federal government in some cases did what they did in terms of the transfers to the provinces is because they saw it—and if you look on the graph I have in front of me, it's like a plane taking off—they're going up dramatically and they're saying, "Hey, something has to be done."

Only over the last two years with welfare have you heard the Premier say something needs to be done or you heard Bill Clinton say something needs to be done. In a non-political way you've got socialists, NDP, saying something has to be done. You've got a Democratic President down there who says something has to be done. So isn't it the case that finally, after all of this bleeding that has gone on, a big source of why we have the deficit is the increase in social assistance and that in fact only now are we even getting around—and here the Ministry of Finance hasn't even looked at what the savings would be by reducing the payouts from 30% to 10%, which we've called for for over a year and yet, as the Ministry of Finance, you can't even tell me what the figures or the savings are. Isn't there something wrong with that system?

**Mr. Caplan:** You don't have to answer political questions.

**The Chair:** If the answer is not too long—I just want to let Mr Carr know that we've concluded his first 20 minutes and when you're finished, we'll proceed to the government member.

1430

**Mr Christie:** I'm not sure this is an answer, Mr Carr, but in terms of when the federal restrictions were put on, when you look at the chart that you have on the escalation of social assistance costs I think you'll note that the very rapid period of escalation was from, say, the middle of 1989 through 1992 and 1993, and it was at the beginning of that period, not at the end of that period, that the federal restrictions, particularly the federal CAP restrictions, were put on. To see them as a characterization of the very rapid growth in social assistance spending during the recession is not—I mean, they predate the very rapid growth in social assistance spending during the recession.

**Mr Sutherland:** I guess just to pick up on that, because at the depth of the recession I used to get a lot of calls too into my office about the numbers on welfare, I do remember seeing the statistics that indicated that during 1991 over 250,000 people in the province of Ontario exhausted their unemployment insurance benefits. If you go back and you look at 1991 and you look at the dramatic increase in social assistance that year, you will see that the 250,000 would account for—I don't know—probably 85% or 90% of the increase in social assistance costs that year.

Picking up on that discussion though, and particularly since the analogy to Alberta was made, I thought the slide on federal share of social assistance spending was a very interesting slide because, as we know, there have been three provinces that come under the cap—BC, Ontario and Alberta—but your slide indicates that Alberta is still receiving roughly 50 cents of every dollar on

social assistance spending, which would indicate to me two things.

One is that they came under the 5% cap, because the recession in Alberta in the early 1990s wasn't as great, because a great deal of the recession had to do with adjustments to free trade, restructuring, primarily more in the manufacturing sector rather than in some of the other sectors. I know the resource sector had been weak for a couple of years, but it didn't see the dramatic decline in employment levels or the same degree of a recession that we saw here in the province of Ontario at that time, particularly on the employment numbers, and that points out the difference.

It's great to say, and I guess congratulations to Premier Klein for getting there, but when you're looking at that, Premier Klein is able to do that with 50-cent dollars. We could make our deficit significantly lower, I'm sure, if we had 50-cent dollars with social assistance. So I thought that slide was very interesting to point out how, again, the impact has been on Ontario in its treatment from the federal government versus even one of the other provinces, Alberta. Certainly to some, as I said earlier today in response to the auditor, the new alleged messiah of how to run government finances is Ralph Klein.

I guess a couple of other questions I had—oh, I think I've lost it now. Sorry. If there's someone else, you'd better go to them. I've lost my question.

**Mr Wiseman:** I want to pursue this questioning because I need to have an idea of the impacts of what's going to happen in terms of the future. We see this graph—it's the graph of the interest rate increases from 1971—and we see in 1989, for example, that the interest rates start to go way up even though the inflation rate was somewhere around 3.8%. My question is, for every 1% increase in interest rates, how many people are going to be put out of work?

**Mr Dorey:** In part it depends upon where the increase in interest rates comes from. We've seen that the US economy has been growing stronger very strongly, and that's put some upward pressure on US interest rates. That in turn has led to higher interest rates in Canada. That US growth, on the other hand, will be good for the Ontario economy.

If the interest rates are taken alone and are simply the result of Bank of Canada policy, our estimation is that a 1% increase across the board in interest rates would reduce real GDP by about four tenths of a per cent in the first year. Four tenths of a per cent in employment would be—see if I can get this right—about 200,000 jobs I think.

*Interjection.*

**Mr Dorey:** Oh, 20,000? Sorry.

**Mr Wiseman:** A 1% increase in interest rates will create a four-tenths-of-a-point decrease in GDP, which is—

**Mr Dorey:** It's 20,000 jobs, I'm sorry.

**Mr Wiseman:** It's 20,000 jobs.

**Mr Dorey:** Or 2,000; it starts with a two.

**Mr Wiseman:** Now we've gone from a magnitude

of—there's 100 magnitudes here. Let's see if we can nail that down a little bit. We're trying to write a budget here, folks. What is it, 2,000 or 20,000?

**Mr Dorey:** It's 0.4% of a five million labour force. That would be, according to my expert friend here, 20,000.

**Mr Wiseman:** So 20,000. Okay. Now, I'm not sure that I followed why the connection should be to whatever is happening in the United States. A 1% increase in interest rates in Canada, for whatever reason that the Bank of Canada has decided to do it, is going to translate into a 0.4% decrease in GDP.

**Mr Dorey:** That's right.

**Mr Wiseman:** Now, what is the impact on unemployment when the dollar rises one cent? What can we look at in terms of that? The other part of that question is, can I assume, is it safe to assume, that it is 0.4% plus or minus, if interest rates drop a per cent or go up a per cent? Is it safe to make that connection?

**Mr Dorey:** Yes, that's generally symmetrical.

**Mr Wiseman:** Okay. Then what is the impact of a one-cent increase in the Canadian dollar, and at what point, if it goes up, does it start to become detrimental to the Canadian and the Ontario economy and start to put people out of work as the dollar rises?

**Mr Dorey:** Again, a rough rule of thumb would be about two tenths of a per cent on real growth from each cent increase in the dollar.

**Mr Wiseman:** So, 10,000 jobs.

**Mr Dorey:** Yes, 10,000 jobs or so. In terms of where it starts to have an impact, there's really a huge variety among industries. Some industries are competitive, would be competitive with a 90- or 95-cent dollar, some have trouble at 80 and for some it's 70. So you get an incremental impact all the way up.

**The Chair:** Back to Mr Sutherland.

**Mr Sutherland:** I remember two of my questions.

(1) Regarding the forecast for economic output, on the slide you talked about consensus forecasts and blue-chip economic indicators. There seemed to be some question because the figures put forward here are a little higher than what we heard from one of the presenters today. Could you just outline, then, for the committee how you developed the consensus forecast?

(2) On the slide about the strongest job growth in six years, it talks about full- and part-time jobs, but it doesn't give a breakdown of the percentage of new jobs that are full-time versus part-time.

**Mr Dorey:** Right. In terms of the consensus, essentially what we do is take a survey of all the forecasters we know that forecast the Ontario economy. That's a much larger number for this year and next. There's a much smaller group who forecast out to 1998 or beyond. So we take whoever there is.

Actually, that's the consensus view of private forecasts, all the people that we are aware of who forecast out to 1998, their view of average real growth in the Ontario economy and the other provinces over the 1995-98 period. That's somewhat higher than some of the people

you've heard from this morning, but that's a survey that we do, and I don't think we've missed any professional, significant, reputable forecasters.

**Mr Sutherland:** Or any of the ones who may appear before the committee?

**Mr Dorey:** No, we certainly included the Royal Bank in our forecast. I understand Mr de Bever is now with the teachers' pension plan, and they're not part of our forecast survey at this point.

**Mr Sutherland:** Okay. Thank you.

**1440**

**Mr Dorey:** The other point to take account of is that it's the combination of real growth and inflation that affects our revenues and the question of whether we're exaggerating or not. I think our view on inflation is that we expect somewhat lower inflation than the consensus of forecasters at this point for next year, so that for next year our forecast for nominal growth is 5.6%, which is exactly equal to the private forecasters.

**Mr Sutherland:** And just the second question on the jobs, full-time and part-time?

**Mr Dorey:** Oh, I'm sorry. More than all of the jobs over the past 11 months have been full-time. In fact last calendar year there were 71,000 jobs created on a year-over-year average—I forget the precise numbers—but more than that were full-time, so there was in fact a decrease in the number of part-time jobs.

It's the first time that's happened in quite a while.

**Mr Norm Jamison (Norfolk):** In looking at the tax question around small manufacturers, small businesses, just a reflection on that 8.2% as compared to the 10%. The way it was explained was, when you take off the employer health tax with the exemption for new hires, that brings it down. Has there been that significant a growth in hiring in the small business area? To bring the payroll taxes down from 10%, what they would've been, what kind of numbers would be involved in there? Have you anything on that?

Of course, the tax comparison question between jurisdictions is one that I'm very interested in also. I know that the small business community had a tax reduction of a half a per cent in 1992, and the employer health tax exemption has really made our tax competitiveness in that area I think really obvious when you look at them in graph form. But I'm looking particularly at where we come from the 8.2% figure when we talk about the employer health tax exclusion for new hires and what that has meant in terms of that portion of the bar, numbers of hires.

**Mr Trick:** I think you're right on that point. What this graphic is intended to show is the effective rate of payroll taxes for employees in Ontario, Quebec and the US average, and it comes from an independent study that was done by Peat Marwick in the United States. Essentially what it shows is that for the average employee in Ontario, the payroll tax is 10% of the employee's compensation. If it's a new employee—so they can take advantage of the one-year holiday we have for new employees—then the effective rate actually is only 8.2%. So the gap there is for the one-year payroll tax holiday.



Of course it shows higher in Quebec and higher in most of the United States, particularly because of social security taxes and health costs in the US.

If you look at the situation of small business as a whole, you're right that there is a lower tax rate for small business today than there was prior to the 1992 budget: 9.5% versus 10%. It's also lower compared to what's charged to a larger company. The statutory rate for manufacturing is 13.5% and for non-manufacturing business it's 15.5%. So it's quite a bit lower rate for small business. As well, as you mentioned, they do pay a lower rate on employer health tax and they're exempt from the corporate minimum tax.

So there are a number of ways in which the tax system is intended to encourage small businesses to start up and to try to give them some potential for growth without paying as high taxes as they would for larger ones.

**Mr Jamison:** The same situation is really shown here in the corporate tax rates and, again, there's been a lot of debate around corporate tax rates. We've all heard the debate going on for years, probably before I was here and continuing through this term. When we look at the effective corporate tax rates, again, where were these figures where Ontario is second lowest in all the surrounding jurisdictions? How were these figures compiled? Basically, was there a reduction, as there was in the small business and I believe there was for small manufacturers, in 1992 also?

**Mr Trick:** Yes, there was a reduction for manufacturers in 1992 as well. The rate came down a point there; it was 14.5% and it was reduced to 13.5%.

What this graphic shows is the results of a study, again that was done independently by Peat Marwick in the United States. They did it for the state of New York actually, and it combines the impacts of a number of taxes. This is not just corporate income tax, which is the rate I just cited for you, but also capital taxes, property tax and the sales tax you pay on business inputs. So it tries to cover a whole spectrum of taxes, recognizing that all of them ultimately get paid by somebody and have an effect on the competitiveness of the business. When you add them all up, this is the outcome that Peat Marwick came to.

**Mr Jamison:** One last question I have, and it's really to clear up any confusion: When the auditor was with us earlier on today, he talked about two different ways of, really, accounting, and the way in which the books have been done as far as deficits and budgets are done, it's been explained there are two different ways of doing that. How long has the government of Ontario been using the practice which the auditor is concerned about? How long has that accounting system been in place and used in the province?

**Mr Christie:** The system the auditor's commenting on and which the auditor has dealt with over the last couple of years, the cash accounting system, has basically been in place since about 1967 or 1968.

I think it's important to note that the things that the auditor has talked about the last few years in that system have basically been the issues of preflows, which has

been an ongoing issue for at least 15 years under the cash accounting, yet the concept of accrual is supposed to address that. The other thing that he's talked about is the loans-based financing for capital, which is a practice that was used in the late 1960s and early 1970s with some of the educational capital corporations and has been used in the last few years, again, for some educational facilities, for transportation and some sewer and water.

So these facets of Ontario's books have been a property of the system for about 25 years, and it was really last year for the first time in the public accounts that we made the transition to a different accounting system. As the minister described this morning, that's the system that's being used in public accounts, although the budget as a planning document will maintain a lot of the characteristics of the system that's been in place for some time.

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**Mr Wiseman:** In your determination of the comparative taxes in the United States to here, I know some of the cities have taxes on businesses as well, some of them as high as 5%, 6%, and they also have city income taxes. Do you have any opportunity to calculate those taxes into the scale, or are those left drifting and not really part of the equation to determine comparative competitiveness?

**Mr Trick:** In the studies that were done here by Peat Marwick, what they did was they took the total tax revenues in a state, including the local taxes that people are paying, and they averaged them out across the state, so they are in here. What doesn't really show in here is, for instance, if Buffalo had higher taxes and Rochester had lower, you don't really see the specific number for Buffalo as opposed to Rochester; it's just averaged across the state of New York. So you would see variances, which is exactly, I think, the point that you're making.

**Mr Phillips:** Just a comment, Mr Christie, on what the auditor said: I have real difficulty with the way the province reports its finances. I just cannot accept that it's simply accounting. The auditor this morning said this has nothing to do with accounting rules, selling GO trains for \$430 million to a Bermuda company, leasing them back and showing that as revenue; selling all of the government buildings—the Frost building, the Macdonald building—to yourself, showing that as revenue; saying to school boards, "You go borrow the money we used to give you as grants, show it on your books, not on our books, but whoever you borrow the money from, we'll repay 100% of the principal and interest."

The auditor says that doesn't reflect financial reality under any accounting rules, so I frankly have difficulty accepting that this is just a battle of the accountants. I don't think the auditor could have been clearer that to report the GO train sales as revenue is not an accounting battle. He calls it an incorrect reporting of revenue. I want to get that on the record. I hadn't planned to because it's not really a question; it's more a statement. The auditor uses terms like "incorrect," not that this is a "different way of handling it," and I'm afraid that the document's riddled with that.

My question, though, to start with, is on your revenue estimates. I see that in the revenue estimates for 1994-95, and then 1995-96, 1996-97, in all of the financial num-

bers you've prepared for your declining deficit, you've assumed federal payments on what's called the EPF and the Canada assistance plan of \$6.5 billion for 1994-95, \$6.1 billion for 1995-96, and \$6.2 billion for 1996-97. I am using the right numbers, am I?

**Mr Trick:** Yes.

**Mr Phillips:** So the expectation is that the federal transfer payments will—I guess they went up this year, 1994-95, by \$300 million. Is that right?

**Mr Trick:** For EPF and CAP put together, yes.

**Mr Phillips:** And you expect they'll go down to about \$6.1 billion or \$6.2 billion over the next two years, and you've built those numbers into the forecast?

**Mr Trick:** That's right, yes.

**Mr Phillips:** I was surprised to see personal income tax in 1994-95 unchanged from 1993-94, that it just stayed flat when I think you had been predicting a fairly substantial increase in personal income tax revenue. Can you explain that for us and then let us know the basis on which you've estimated the 1995-96, 1996-97 revenues? I also was interested by the way the employer health tax revenues dropped as well in 1994-95.

**Mr Dorey:** I can deal with the revenue questions, or at least David will deal with the federal-provincial questions but I'm happy to deal with PIT and EHT.

On the personal income tax front, the decline reflects information we got from the federal government about 1993 assessments. Essentially what's happened is they're lower than we had thought. It appears to us that the principal factor was higher RSP contributions than we had expected, and that in turn lowers—the lower assessment base in 1993 lowers the base a bit for 1994 too. So that accounts for the principal difference in the 1994-95 PIT payments.

**Mr Phillips:** Does that impact 1995-96, 1996-97 at all?

**Mr Dorey:** Well, there are some offsetting effects. It does reduce the base, but we've got stronger growth this year and into next year than we had expected in underlying income, so the net impact is not particularly large. We'll have to take a good look at the information—we haven't had it for a long time—that we've received from the federal government, and we're looking at the behaviour of RSP contributors to see whether there is an underlying trend there that may be a problem.

On the EHT side, the answer is that we've given people the first—nobody pays more this year than they did last as a result of the measure contained in last year's budget, so we've essentially returned something in the order of \$300 million to employers for hiring new employees.

**Mr Phillips:** Okay. The federal numbers: Those are the right numbers, are they, that we're using?

**Mr Trick:** Yes, they are.

**Mr Phillips:** So if there's any change, it would be off those numbers, obviously.

**Mr Trick:** Right.

**Mr Phillips:** Am I right that the CAP, the Canada assistance plan, has gone up an average of 10.7% a

year—these are the numbers I asked for—for the last 10 years or so?

**Mr Trick:** Over that period, yes.

**Mr Phillips:** Right. And the established program financing has gone up around 5% a year.

**Mr Trick:** That's the total entitlement, yes. The cash payments have gone up 2.7% a year.

**Mr Phillips:** But I assume the government looks at the total payment: cash and the tax points.

**Mr Trick:** We do. You understand that the tax points are included in the personal income tax numbers and the corporate income tax numbers that Steve was talking about.

**Mr Phillips:** I understand that, but when you look at what you get from the established program financing from the federal government, you put the two together; you put the tax portion and the cash portion together and look at that as the total. Is that fair to say?

**Mr Trick:** Well, the position we take on that, sir, is that the tax portion is something that was transferred to the province in 1977 and it's used in calculating the cash payment, but it's the cash payment that is actually what we receive from the federal government. The federal government does not give us those tax revenues. They're collected by the province in the name of the province.

**Mr Phillips:** The documents I got from you always show that you looked at the total. You said, "All right, here's what we're entitled to." Part of it we get from taxes, part from cash. If the taxes go up, the cash goes down. That's the deal. Is that fair to say?

**Mr Trick:** Yes.

**Mr Phillips:** So why wouldn't we look at the total?

**Mr Trick:** I'm sorry. I guess it's just a question of the phrase "looking at." We do have to look at it in order to calculate the cash payment, but in terms of what we count as a revenue from the federal government, we only count the cash portion.

**Mr Phillips:** Why would that be? I notice that the tax portion went down a little bit this year, so the cash portion went up. Why would we not look at the total? Because a tax dollar is a tax dollar is a tax dollar. What's the justification for not looking at the total?

**Mr Trick:** The reason we don't count the tax points as a revenue from the federal government is that when the taxpayer sees it, he pays it on the line that says "Ontario income tax," and from the taxpayer's perspective it's money that goes to the Ontario treasury from the taxpayer. It doesn't go to the federal government. And the same way with the corporate income tax point: It's paid directly from the taxpayer to the Ontario government. So even though the federal government uses those numbers in calculating the cash payment, it's not money that the federal government gives us; it comes to us from the taxpayer.

**Mr Phillips:** I just want to be clear. I gather 20 years ago sort of a deal was made and they said: "Listen, we used to give you cash but we'll do it a little differently. We're all agreed. We'll transfer some what are called tax points. So revenue we used to get federally, we'll give it



to you." And the deal is, if that goes up, cash payment goes down.

**Mr Trick:** Right.

1500

**Mr Phillips:** Why would we not look at that total? Aren't we only looking at part of the deal if we only look at the cash part of it?

**Mr Trick:** What you're describing there is an accurate description of what happens. The provinces have never accepted the federal government's perspective that this was sort of an ongoing gift. The provincial calculation of it is really that once the tax points were transferred they belonged to the province and they're not like an ongoing revenue that we get every year from the federal government.

**Mr Phillips:** But if I strike a deal with you and say: "Well, I'll pay you in two ways. One is that I'll pay you cash and the other is that you can have a share of these revenues and that's how you'll get paid. If your share of revenue goes up, I give you a little less cash." But now you're saying, "No, no, we're only going to count the cash part."

**Mr Trick:** We'd look at it more as, "You gave us an asset in 1977 and we continue to hold the asset but it's not something you've given us new every year."

**Mr Phillips:** But in all the documents I got from you it says: "Here's what we're entitled to on established program financing in total. We're going to get it in cash and tax." But you're now saying you're only going to look at the cash part of it.

**Mr Trick:** Let me ask Harriet.

**Ms Harriet De Koven:** I'm Harriet De Koven. I'm the director of the intergovernmental finance policy branch.

I don't know if I can help here. What the federal government did in 1977 was not to cede us the revenue from the tax points but to vacate the actual tax room. In other words, the federal government reduced the amount of tax it was raising in the personal income tax and corporate income tax fields, and in the case of Ontario it vacated the equivalent of 13.5 personal income tax points and one corporate income tax point. In return, the province had the option of raising those revenues so that the net effect on the taxpayer was zero. The same amount of revenue was being raised but the province was raising more of it than it had been previously and the federal government was raising less.

So these are taxes, as my colleague has said, that are levied by the province. They appear in our books as personal income tax and corporate income tax revenue because they come in with our personal and corporate income taxes from the government of Canada. They are used in the calculation of the total entitlement for established programs financing, but for reporting purposes, I believe in all cases in all provinces, are reported with the personal and corporate income taxes. However, they are part of the total entitlement, as you point out.

**Mr Phillips:** I'm just anticipating the usual battle when the federal budget comes out and the NDP will say the dastardly Liberals federally are cutting our transfer

payments. I'm trying to understand. What I see from you is that you've always included tax and cash in here, in the entitlements. Your established program financing money from the federal government is cash and tax total.

**Ms De Koven:** You're correct. That is the entitlement, although the entitlement does not correspond exactly with the cash flow. There's a very complicated program, set up with a formula, and I think we've talked about this before. With the cash flow you get benefits and deductions for prior years, so if we are paid too much in a previous year, up to three years previous, that is deducted from the current year and vice versa.

**Mr Phillips:** Sure, over time it works its way out.

**Ms De Koven:** So what you see on the cash payment in our budget represents the netting out of all of those effects for that year, and it's not identical to what you have there. The entitlements are part of the calculation to determine how much we're getting in cash, but you're right that the tax points were part of that calculation.

I should add that the federal government, having vacated those tax fields, has in the intervening period, which I guess would be not quite 20 years, raised those taxes. We have not gone through an examination of the degree to which those tax fields have been reoccupied, but the federal government's taxes in personal income tax and corporate income tax have not remained unchanged since 1977.

**Mr Phillips:** I have one last question. You gave me the payments against the unfunded liabilities for the teachers' pension. I want to be sure I've got this right, that there will be no payments made in 1994-95, 1995-96; then in 1996-97, \$263 million, and then 1997-98, \$610 million. Next year, 1995-96, it will look pretty good on the books because there are zero payments; the next year they start to kick in and then a brand-new expense of \$610 million to fund the unfunded liability. Have I characterized that properly?

**Mr Christie:** The numbers are certainly correct. It's not a new expense, it's the same ongoing expense, not having gains to be netted off against it and therefore recurring at its full level—but that's semantics.

**Mrs Caplan:** I have a couple of brief questions and then I'm going to leave time for my colleagues.

**The Chair:** Six minutes.

**Mrs Caplan:** Six minutes in total? Then I'll just ask one question and leave some time for you, Monte.

The Provincial Auditor this morning, in giving us his advice, said that since the treasury has changed the way you keep your books and it took you approximately a year to do that, that you've moved from the old cash—for people who don't understand what that means, it's sort of all in, all out in one year; no what's called depreciation or so forth. That was seen as an old and archaic method of keeping the province's books, and the suggestion for a number of years was to change to an accrual method that, I think it would be fair to say, conformed more to generally accepted accounting principles.

I see you nodding your head. If I say something you disagree with, please feel free to jump in.

The Provincial Auditor said you've accomplished that. You have moved from the old cash accounting methods to the new accrual accounting methods. That's now how you keep your books, and you presented to the public accounts committee last fall your books done in the new way.

I support that and I think that's important. I believe that accountability and transparency go hand in hand, and if there's a better way to keep your books so that people can understand how you're doing business and relate it to either other jurisdictions or other organizations of the same nature—and I'll digress for a minute to say that we understand a government, while it may have some of the same imperatives of the private sector is, by its very nature, different. Therefore, some of the accounting practices would be best compared to public sector organizations. Accounting agencies and accountants over the years have developed standards for public organizations as well as private.

Today the province of Ontario does its books on an accrual basis; you've made that change successfully. You presented those books to the public accounts committee, and you could, if the Treasurer so directed, present your budget within those same parameters. What I want you to confirm is that it is a direction, a political decision by the Minister of Finance, to present the budget in a way other than is recommended by the Provincial Auditor, that it's a political decision that's been made by the Finance minister, but you could, if he directed, present the budget in an alternative way, as suggested by the Provincial Auditor.

**Mr Christie:** The question you ask about political direction I think was answered by the minister earlier. But in terms of the capacity to do so, one of the things that's important and that we've certainly talked to the public accounts committee about is the fact that the last public accounts was what we've called a snapshot; that is, in terms of particularly identifying the accruals, what we would be trying to do in making what was and continues to be quite a substantial shift in the way in which business is done in government is that at March 31, the end of the fiscal year, we would do a snapshot that showed the accruals and the consolidations at that point in time.

It would be significantly more difficult to do that on an ongoing day-to-day, week-to-week basis that would be associated with doing an estimates process, an approvals process and an in-year monitoring process. Doing that all on an accruals basis would be significantly more difficult.

1510

**Mrs Caplan:** I hear what you're saying. However, what we've heard, both from the Provincial Auditor and from the Treasurer, is that there will be a reconciliation provided along with the budget and that that adds to the confusion. What that tells me also is that if you are able to do a reconciliation, then if directed by the Treasurer, if he said, "I want to present the budget in the same format, using our estimates, on an accrual basis," you could do that.

**Mr Christie:** I think there is a difference between doing a summary comparison of the budget plan on the two bases—for example, doing line-by-line ministry

estimates on an accrual basis with the appropriate consolidations built in. I suppose to some extent it's a question of what one means by preparing the budget on the new basis, because the process of preparing the budget is a good deal more than a figures-generation process. As you know, there's quite a bit of decision-making and management—options, consideration, evaluation etc—all of which require financial information. It depends on how one defines the process. If the process is a presentation one, it depends on the level of detail.

It will certainly be possible to do the kind of comparison the minister has talked about, and certainly, with enough preplanning—this is tautology, I suppose, in a way—it would be possible to do the full process. Whether we could do it for this year, starting now—to do the whole process on that basis, I'm kind of sceptical.

**Mrs Caplan:** And that's because the direction was not given far enough in advance to be able to accomplish an end product?

**Mr Christie:** We have not looked at how long it would take to change all our systems around to do the full conversion. There are a number of intermediate steps as well, but we haven't done a complete scoping of, "If one went this far, one would need this much lead time," so I really can't answer.

**The Chair:** Unfortunately, we've used up seven minutes, but we do have another round to go. I'll break the next portion of time into 15-minute sections; we start with Mr Johnson.

**Mr David Johnson:** I want a little extra clarification on the tax points you were talking about. How many direct tax points does the province of Ontario have on the income tax?

**Mr Trick:** What was transferred to us was 13.5 personal income tax points and one corporate income tax point.

**Mr David Johnson:** Thirteen and a half personal income tax?

**Mr Trick:** That's right.

**Mr David Johnson:** So of what is perceived to be the federal tax people pay, actually 13.5 points of that is provincial.

**Mr Trick:** No, sir. At the time the fiscal arrangements were done in 1977, the federal government essentially, instead of charging 100 points of federal personal income tax, reduced its tax rate by 13.5 points and left the province to increase its own personal income tax to fill that void. Right now, if you pay \$1 in personal income tax to the federal government it does go to Ottawa, and since we had the higher rate since that time, you pay \$1 in personal income tax to the province and it comes to us.

**Mr David Johnson:** Can I just ask you, then: Generally the provincial tax is 58% of the federal tax?

**Mr Trick:** Yes.

**Mr David Johnson:** Are the 13.5 points you're talking about contained within that 58%?

**Mr Trick:** Yes, it's all taken into account in those numbers: the lower federal base and the higher provincial rate.



**Mr David Johnson:** There's no other pot that 13.5 comes out of?

**Mr Trick:** No.

**Mr David Johnson:** All right.

Going back to the auditor's concern about the non-budgetary loan-based issues, "loans," apparently, to colleges, universities, school boards, health facilities, that sort of thing, which totalled this year some \$1.6 billion, is it the expectation that this money will be somehow repaid? It's called a loan. The auditor is of the opinion that this money is a grant, not a loan.

**Mr Christie:** These loans will be repaid by the loan recipient but will be repaid out of funds given to them by the province; that is, the province's operating grants to those bodies will include an allowance for the principal and interest that needs to be repaid.

**Mr David Johnson:** In other words, the provincial budget will have to go up.

**Mr Christie:** That's right.

**Mr David Johnson:** And then that money will be given to the school boards and universities and health facilities and they'll turn around and give it back as a repayment.

**Mr Christie:** That's right. The principal and interest on those loans will be explicitly recorded as part of our operating expenses. In fact, one of the reasons the government has expressed for going in this direction is to match the costs of capital with the benefits of capital. In this case, these are long-lived capital assets, up to 20 years, and this practice is in effect a way of amortizing the cost of those assets over that period. The result is that you pay for the assets over the term of the loan, which is about 20 years.

**Mr David Johnson:** The \$1.6 billion that was included for the crown corporations this year would not be reflected in this year's budget, I presume, in terms of operating expenses?

**Mr Christie:** There would be a relatively small portion, because interest is paid in arrears.

**Mr David Johnson:** That's right. Could you tell me what the impact of that amount of money will be on next year's budget?

**Mr Christie:** On a full annual basis?

**Mr David Johnson:** Once it's fully in the system.

**Mr Christie:** I don't have that number exactly. If we don't have it exactly handy, we will certainly supply it to you.

**Mr David Johnson:** Can you give me a guess? If it's over a 20-year basis—

**Mr Christie:** The principal and interest on \$1.6 billion would be roughly in the order of \$150 million to \$175 million a year, perhaps up to \$200 million—

**Mr David Johnson:** Probably about \$175 million a year, depending on interest rates. That's for that amount. Then of course there's the subsequent year's amount of \$854 million, which will be now working its way through the accounts as well, and any future years'.

I'm looking at your sheet on the balanced operating

budget in 1998. In terms of the possibility of balancing the budget by 1998, which is what you're speculating, there are a number of assumptions you'd have to make to arrive at that very happy conclusion. I'm very doubtful, obviously, that you're going to do it, with what I've seen so far. What assumptions have you made on expenditures through that period of time, total expenditures, bottom-line expenditures—not just program, excluding debentures etc, but total expenditures?

**Mr Christie:** The expenditure assumptions are as shown in the medium-term plan, and because we look at this on an operating-versus-capital basis, the operating expenditures were assumed to grow at less than the rate of inflation, which is on the order of 1.5% per year.

**Mr David Johnson:** Can you give me a number, for example, for 95-96?

**Mr Christie:** Those numbers are included, I believe, in terms of the questions Mr Phillips posed, the actual numbers out to 1998-99. I believe you have a copy of the answers to the questions Mr Phillips posed.

**Mr David Johnson:** It's possible, in this mound of information.

**Mr Christie:** We can pass you a copy. This is page 2: The table there indicates both the revenues and the operating expenditures.

**Mr David Johnson:** What I'm trying to get my mind around is, what are the key components in balancing the budget? That's the bottom line. The deputants this morning expressed that as a key concern. Obviously, expenditures are a key component. The growth in the economy is another key component. Let's look at the growth: The growth you've forecast is 4.3%.

**Mr Christie:** Economic growth.

**Mr David Johnson:** Economic growth is 4.3%. I think I saw a chart here earlier that indicated that, in terms of consulting with various organizations, the average is 3.9%. If the growth was one percentage point lower than you've forecast, if instead of 4.3% it was 3.3%—and certainly there are many organizations such as the Royal Bank and such as the first deputant today who would indicate that 3% would be about what we can expect—what impact would that have in terms of balancing the budget? I would presume that would have an impact on your revenues.

1520

**Mr Christie:** Steve, why don't you talk about the revenue impact.

**Mr Dorey:** By way of context, the average recovery period, the average period of expansion, in the postwar period has averaged about 5%, so 4% is not particularly high by historical standards. One per cent lower growth would cost us about \$350 million to \$400 million on the revenue side and the impact on expenditures could be as high as \$200 million, so \$600 million could be the full impact of a 1% lower growth.

**Mr David Johnson:** Six hundred million dollars a year. Over the course of four years, that would be about \$2.5 billion. Is that about right?

**Mr Dorey:** That's right.

**Mr David Johnson:** In terms of expenditures, then, from your numbers, you're bringing the deficit from \$8.3 billion down to zero in four years. Is that purely as a result of the economic growth we're talking about or is there any expenditure reduction? I'm trying to interpret your numbers on the fly. It looks to me as if the expenditures are actually up.

**Mr Christie:** The operating balance goes from about \$6.3 billion in 1994-95—so that's not including any of the capital—out to a surplus of \$1.3 billion in 1998-99. The path is as you see there: Over the four years, operating spending grows by about \$3.5 billion whereas revenue grows by about \$10 billion, the difference being the reduction in the operating position; and the growth in revenues is due to sustained economic growth at the levels Steve described.

**Mr David Johnson:** Would the growth in revenues be a reflection of the 4.3% economic growth? Is that solely what we would—

**Mr Dorey:** Inflation obviously makes a difference. It's nominal growth that is the principal driver.

**Mr David Johnson:** Inflation plus economic growth. Ten billion in extra revenues during that period would seem to be quite a hefty increase. I guess that was realized prior to 1990, during a three-year period, but it's very unusual growth in the province of Ontario over any period of time. Are there any other factors other than inflation and economic growth that would contribute to those extra revenues?

**Mr Dorey:** I think that's quite a modest pace of growth compared to some of the earlier periods. There are no tax measures built in there, and obviously in the earlier periods there were some significant tax increases. Revenues from 1985 to 1990 grew by a little over \$15 billion for a comparable period.

**Mr David Johnson:** That's what I indicated: prior to 1990. But that was an exceptional period in Ontario's history, I would submit. At any rate, I guess the question was, have you incorporated any tax increases? And the answer is yes?

**Mr Christie:** No. The answer is that there are no tax increases built into this.

**Mr David Johnson:** So this is purely because of inflation and economic growth.

Getting back to the deficit: When the minister refers to a 30% reduction in the deficit, can you give us the numbers he's referring to, that the deficit has gone down by 30%?

**Mr Christie:** That's the \$12.5-billion to \$8.5-billion figure over the two years ending with 1994-95.

**Mr David Johnson:** From the \$12.4-billion deficit in 1992 to \$8.3 billion.

**Mr Christie:** Yes, those are the current numbers.

**Mr Wallace:** Actually, the number used is \$8.5 billion. They're the numbers published in the budget of last year.

**Mr David Johnson:** If we were to look over that same period of time in terms of the actual borrowing, what the province of Ontario has had to borrow, and it

was added on to the debt, would there be the same 30% reduction?

**Mr Christie:** I don't believe the reduction is as large for net borrowing.

**Mr David Johnson:** During those same years, the borrowing and what has been added to the debt of the province of Ontario has actually exceeded \$10 billion, I think, every year.

**Mr Christie:** I don't have the exact figures; we can get those for you. Certainly, the public accounts figure for 1993-94 was \$10.8 billion and that, on the new basis of presentation, is what was added to the debt in 1993-94.

**Mr David Johnson:** I guess it depends on what numbers you choose, but in actual fact in 1992, \$11.6 billion was added to the debt and in 1983, \$10.2 billion. This year, 1995, what are we going to add—the Royal Bank says another \$10 billion—to the debt of the province of Ontario?

The minister also referred to the social contract, and I just want to shift to that for a minute. He indicated that there's a \$2-billion saving for the social contract which would not be coming back into the budget of the province of Ontario. Yet we hear stories that there are municipalities, for example, with vital services—policing, firefighters, those kinds of services—that have incurred costs which have simply been shifted to the end of the social contract. I wonder what information you have on that situation.

The concern is that there will be millions of dollars, tens of millions of dollars, I suppose, in a bubble or a balloon that is about to burst about one year from now in March 1996 when the social contract expires. What information do you have on that?

**Mr Christie:** As a matter of fact, we're having a survey done at the moment. In fact there was a survey done about a year ago, I think up to a year ago, in terms of the steps that local bodies had taken and the planning that had been done locally in terms of exit from the social contract. We're redoing it now as we get to within about a year; we're coming up very quickly now to one year till the end of the social contract. We're having that survey redone so that we have a better sense of the kinds of steps that have been taken locally to prevent that sort of bubble.

We've also, as the minister announced at the time of making our major transfer announcement, broadened the program of adjustment that was in place for the broader public sector and the public sector in general in terms of labour adjustment and training and restructuring to aid in the changes that will be coming over the next couple of years.

The studies that we've done, the work that has been undertaken, some of which has been shared before and will be shared again when this new survey is done, has not indicated a large identifiable bubble. One of the reasons, I think, is that one of the main sources of a potential bubble, which would be that compensation trends would have diverged markedly between the public and private sectors, really hasn't happened because wage settlements in the private sector have been quite low as



well, market wage settlements have been quite low. Relative wages have not gotten dramatically out of line. However, we'll see when we do the survey what the people who actually have to plan for this on a day-by-day basis with their bargaining agents feel about the pressures they're facing.

**Mr David Johnson:** So the kind of thing—

**The Chair:** Our time has expired, Mr Johnson, amazing as it seems. When you're into that most interesting dialogue, the time just whistles by, as I say.

1530

**Mr Jamison:** Again, going back to the handout from the Treasurer in and around job gains, I guess the new figure as of December is that your revised data indicate that 196,000 new jobs have been created in the province. That's from February through December. I believe that's what that graph indicates.

When I look at that and I look at job gains by industry, manufacturing seems to be far outpacing, again in the job gains area. Just to be more specific so I get some idea of where these job gains are coming from, would that be in the auto-related end of manufacturing and, if so, are those major auto makers or are those jobs in manufacturing parts and so on, large or small manufacturing? Is there a breakdown in that light at all?

**Mr Dorey:** The transportation equipment sector as a whole accounts for about, over that period, 40,000 of those 75,000 jobs. The precise breakdown between the assemblers and the parts we don't have. We think the parts section has done very, very well. Over a good part of the year there was a lot of retooling going on, so there has been hiring coming on now with the assemblers, but we think the parts sector has done very well. I don't have the precise breakdown between the two parts of the auto sector, though.

**Mr Jamison:** Okay. One other question I have again deals with the graphs. I find that the graphs are interesting, but it's also important to know where the information actually was sourced and comes from. The graph on real output, and it's a projection again from 1995 through 1998, shows on that particular bar graph the average annual per cent of growth and Ontario again leading Canada in that time frame; not only that, but also leading the G-7 countries, such as France, Germany, Japan, Italy, UK and the US, for an example. Where did these statistics come from? Are these internal statistics or are they statistics by major think tanks or a combination thereof?

**Mr Dorey:** They're surveys of primarily financial institutions and econometric firms. Basically, the data for the G-7 countries are taken from a survey done by a British firm called Consensus Economics, which surveys all the major investment houses and so on. The Ontario data we take from a survey we do simply because it's not available in international surveys. We survey all of the major banks and all of the major econometric forecasters and that's the sample they're taken from.

**Mr Jamison:** Again, the growth that we've seen in jobs in the province, is it centred as it traditionally has been—and we've had a discussion prior and the questions that have been asked here have evolved somewhat around

other jurisdictions, for example, Alberta benefiting tremendously from a mini oil boom.

Our economy here in Ontario has always been very much auto-related. That's been the centrepiece of our manufacturing industry. The investment levels that are taking place in that industry—and again, it really refers to the page entitled "Major Automotive Investments in Ontario"—those investments totalling \$5.5 billion heading into 1997 are announced investments, number one; they've been already announced in the plans to invest those kinds of funds in the auto industry here. Is that what you would call normal investment in the province or above in this sector, or average investment?

**Mr Dorey:** Well, it's certainly substantially higher than it was in the previous period. It's a very strong investment. I don't have the precise figure on how it compares with part of the 1980s. I can take that up. I'll have to get back to you.

**Mr Jamison:** That answers part of the question, but the other part is that these are assured, these have already been announced by the various companies. We notice it goes through to 1997. The ones in 1996-97 are important to the economic outlook, especially being really an automotive-centred economy here in Ontario. So the ones such as the Honda plant at \$20 million, Ford expanding the Oakville truck plant at \$400 million, Toyota, \$600 million, again Ford in Windsor at \$650 million, those particular ones that are scheduled for, say, 1996-97 have already been announced by the companies.

**Mr Dorey:** That's right, yes. They're firmly committed to those expansions.

**Mrs Haslam:** I'm smiling because I don't know if you're going to like my questions. But that's okay; I'm used to that anyway.

A balanced operating budget in 1998 is what that slide is showing. We had a gentleman in this morning who felt that wasn't possible, but I think back to some of the other impossible things, like the Tories saying a 30% tax decrease and a balanced budget in four years, and I think of the Liberals promising to reduce the province's unemployment rate to 6% when the government is looking at an estimate of 9%, and a promise to balance their operating budget within five years.

We've got three different things about balancing operating budgets, balancing the total budget in five years, lowering taxes by 30%, creating 725,000 new jobs, looking at a 6% unemployment versus a 9% unemployment, and then we have a fellow who came in this morning and said they're all not going to work. So when I look at this I'm going to say, is that going to work? Have you got the facts and figures and do you feel confident in saying that you can balance the operating budget in four years?

**Mr Christie:** The fundamentals of the chart you're looking at there are matters that have been described. We've talked about the rate of economic growth. We've talked about the degree of expenditure restraint that will be required there. Not every element of a plan works to the last decimal place of all of the assumptions that are put into it, and whether adjustments are made and what

those adjustments are in terms of changing the plan to meet the eventualities that occur is a matter for the government of the day. No plan automatically unfolds.

I guess the question is whether the assumptions are realistic. Steve has discussed the economic assumptions. The expenditure restraint assumptions are for people to judge. I would have to say. It then becomes a matter of the management of the plan to carry it through or not, which is a matter of government decision-making.

**1540**

**Mrs Haslam:** I wondered why 1998-99 and why not by the year 2000 or something like that. I see that your "Budgetary (Requirement)/Surplus" is still at a negative, and when you look at a projection, why did you stop there? Why didn't you go on? Do you think there's going to be a major degree of change to re-evaluate before you reach the year 2000? Because you haven't gotten to zero, is what I'm saying.

**Mr Christie:** The budgetary requirement is still not zero. As the minister discussed this morning with the analogy of paying for the groceries, the government's focus on this for the last several budgets has been in terms of balancing the operating position, and that's what has been put forward as the goal and that's what the management plan has aimed at. Then, shifting it to the other line has not been part of the discussion to date.

**Mrs Haslam:** Okay. I understand operating versus—I'm getting very good at finance, to tell you the truth. I'm enjoying it.

When we look at the other plans, do the Liberals have a plan? Have you looked at the Tory plan? Have you looked at what they are suggesting? Have you taken that into consideration?

**Mr Christie:** Certainly, I have not personally done work on alternative plans and I'm not aware of staff work on that.

**Mr Wiseman:** When the Liberals allow the Bank of Canada to increase its interest rates, we've already ascertained that for a 1% increase we will lose approximately 20,000 jobs. Can you give me some idea of the mix? How many small business bankruptcies are these Bank of Canada policies that have been allowed to go on under the Liberals and Tories for the last 10 years—how many small business bankruptcies are included in that 0.4% decrease in GDP for every 1% increase in interest rates?

**Mr Dorey:** I'm sorry, I can't tell you.

**Mr Wiseman:** Let's try it from a different direction then. When the Tories pushed the interest rates up from 1987 to 1990, they pushed the unemployment rate up as well. What was the rate of bankruptcies during that time? Do we have those numbers?

**Mr Dorey:** No, we don't have them.

**Mr Wiseman:** Oh. Well, that really makes my next question a little difficult then because my next question was, if we had the absolute numbers of bankruptcies caused by the Liberal-Tory policies, we'd be able to then figure out the average number of people who were unemployed because of the Bank of Canada's policies of increasing the interest rates. My just quick guess was that

the interest rates from 1987 until about 1991 went up about 4.5%, almost 5%, which would be translated in rough numbers to about 100,000 people, and on to welfare after unemployment insurance somewhere in the neighbourhood of 180,000 to 200,000 people just because of their bank policies alone, roughly.

**Mr Dorey:** Well, I do have your bankruptcy numbers, if that helps.

**Mr Wiseman:** Okay, great.

**Mr Dorey:** The number of total bankruptcies in Ontario rose from 10,500 in 1989 to a peak of 31,300 in 1992. So that's an increase of about threefold.

**Mr Wiseman:** About 300%, yes.

**Mr Dorey:** The increase was about equal. Consumers' and businesses' bankruptcies both increased about threefold over that period.

**Mr Wiseman:** Consumers and business. Do you have the impact of these? Because obviously if you've laid off around 100,000 people, then these people and their families don't have purchasing power, so that would have an impact on the economy, especially in the retail sector. Which area has the highest multiplier impact from the Bank of Canada's interest rate policies?

**Mr Dorey:** The initial impact is strongest in the interest-rate-sensitive sectors, which would be primarily housing and autos.

**Mr Wiseman:** Well, we know what it did in housing and autos in Ontario.

I think I just ran out of time.

**Mr Kwinter:** I'd like to go back to some of the auditor's concerns and some of the concerns of the other people who made presentations today. On your slide that we just referred to a minute ago, "Balanced Operating Budget in 1998," you show that the deficit for 1994-95 is going to be \$8.3 billion. Is that correct? If all of your assumptions are correct and all of your projections come in exactly on target, when you go to the public accounts hearings in that year, what will be the deficit that you'll be reporting?

**Mr Christie:** This is for fiscal year 1994-95? I couldn't estimate that for you at the moment. I know the auditor has made some comments and estimates on that, but there are areas that we just don't have an estimate of yet, particularly some of the revenue accruals. I couldn't give you a realistic—

**Mr Kwinter:** The auditor feels it's going to be \$9.9 billion and the Royal Bank feels it's going to be \$10.154 billion. In either case, there's approximately \$2 billion in additional deficit allocation that is going to be attributed to 1994-95. Is that a fair estimate? I mean, it's ballpark.

**Mr Christie:** Ballpark, those numbers would be consistent with the kinds of things that we have found to date, and some of the adjustments—

**Mr Kwinter:** This gets to the crux of the auditor's problems, the bankers' problems, the bond rating agencies' problems and my problems. If you can tell me now, before you've even gone into this thing that, yes, that is probably going to be the figure, why doesn't the budget reflect that? Why are you using phantom numbers? Why



are you using an 8.3 number that everybody knows is not a real number? It makes good political sense but it makes no economic sense, and that is the crux of what the auditor is complaining about. He's saying: "Let's get some reality in these numbers. Let's make sure the numbers that I have to audit at public accounts have some relativity and some semblance of relationship to the numbers that are projected in the budget."

The other problem is this: From a strictly crass political point of view, the average citizen up until recently had one interest only in the budget: "What is it going to do to my taxes?" Now there has been an awareness, a sensitization, you might say, to the fact that the deficit is a problem, and the polls that are coming out right now are saying—I think it's 47% of the people in Canada take the debt problem as the number one problem facing the government.

The problem I have is that when the Treasurer stands up on his budget day and says, "The deficit is going to be \$8.3 billion," in fact he knows, you know, I know and everybody else who has any kind of familiarity with this process knows that that isn't the figure. When you take a look at your net borrowing requirements—because the concern that the people are now aware of is that they have to pay this debt and this debt is going to increase probably by about \$11 billion when you take into account your net borrowing requirements—why can't you come clean and tell the people: "You know what's just happened? We have taken our \$90-billion debt and we've increased it to \$101 billion. That's why we have to make the cuts that we're making and that's why we have to do the things we're doing?"

But everybody deals with this phantom number that has no relationship to anything, and I suggest to you that this \$8.3 billion is meaningless other than in the mind of the Treasurer who's looking for some political advantage. Can you respond to that?

**Mr Christie:** I think, as the minister has noted both today and on other occasions, the past budget contained the information on borrowing requirements that you've mentioned and the next budget will contain the comparison of the budget presentation to the public accounts presentation, which are different concepts, different ways of measuring the government's financial transactions. Both will be provided, as will the borrowing requirement information, so the full information will be available to people on which to assess the government's financial plan and financial transactions both on a cash basis and on another basis.

So there will be more information available probably than there has been at any time in the past.

1550

**Mr Phillips:** I will follow up a little bit on that because this is becoming quite frustrating for the opposition, as you can appreciate. We have an audited statement that reflects the real numbers in the province for 1993-94, last year: \$10.8 billion. The auditor has told us very clearly that he's looked at the budget, the 1994-95 budget, and in his opinion—and I trust him; he is the individual the people in the province count on to give us the straight numbers on the budget.

He has said that the way the government is reporting its finances, and this is quoting him, does not reflect financial reality under any accounting rules. This isn't a battle of the accountants. This is just straight-out facts. He is saying that the government is, and these are his terms, incorrectly treating capital grants as loans receivable, incorrectly reporting sale of office buildings as revenue and incorrectly treating, last year, the GO Transit sale as revenue. This year, I'm told, you've got similar activities in the answers you gave, answers that the ministry gave us.

The pre-budget document that the government is using in going around the province and saying, "The deficit is down 30%," the auditor is saying: "That's bogus. It is not down 30%, and if you, the public, believe it's down 30%, you aren't being given numbers that reflect financial reality." So here we are trying to be helpful in spending our time on the budget, but we're being given numbers that don't reflect financial reality. Those are the auditor's words; they're not my words. They're the Provincial Auditor's words, which I assume no one's ever challenged, and I certainly believe they don't reflect financial reality under any accounting rules.

Even today we've been told that the numbers the government is going to present show a deficit of, as you said, Monte, I think, \$8.4 billion, going down to \$6.5 billion, and the auditor says, "We're playing with incorrect numbers." How can the ministry staff be helpful to us in knowing what the real deficit reduction is? I guess I'll reinforce Mr Kwinter's comments. The auditor gave us these numbers today saying that if you go ahead with these transactions—and right now, after nine months of the year, we're told you are going to go ahead with these transactions. If you go ahead with these transactions, can you confirm that these transactions alone will raise the deficit by \$2 billion?

**Mr Christie:** Is that the piece of paper that the auditor tabled with you this morning?

**Mr Phillips:** He tabled it with us this morning. He tabled it with us two months ago.

**Mr Christie:** I'm not sure exactly what's on it, Mr Phillips.

**Mr Phillips:** Okay. Well, why don't we pass it around to him?

**Mr Christie:** Yes, these are transactions which in the public accounts statement would largely, on consolidation, become part of the deficit, as they did last year.

**Mr Phillips:** I wanted to follow up on some of the answers that I got on my written questions. One was on the number of employees, and I think actually I'll combine the answer you gave to Mr Johnson in your written response. I gather that the number of employees in the Ontario public service in 1994 would be 82,600 what you would call full-time equivalents. Is that right?

**Mr Christie:** At March 31?

**Mr Phillips:** Well, it just says—I guess it is. Yes, right, March 31, 1994.

**Mr Christie:** Okay.

**Mr Phillips:** Those numbers include, I assume, OTAB, the Ontario Training and Adjustment Board, the

clean water agency, the realty corporation, the Ontario Financing Authority.

**Mr Wallace:** Yes.

**Mr Phillips:** And the expenses of the Ontario Financing Authority, its overhead, its staffing expenses and things like that: Where would that show up in the provincial expenses? It's not included in the public debt interest, is it?

**Mr Christie:** We'll have to get that information for you. Was that not provided in the responses?

**Mr Phillips:** If it was, you need a code, in my opinion, to figure it out. It says, "At present, ORC, OTCC and OFA are part of government overhead as their costs in the above-noted categories are paid for from their parent ministries' voted appropriation." But I was unable to find in the voted appropriation the Ontario Financing Authority's overhead costs. Maybe you can just show—

**Mr Christie:** If it wasn't provided with the written evidence, we'll follow up.

**Mr Phillips:** But you can assure me it's not in the public debt interest costs?

**Mr Christie:** As I say, we'll follow up in terms of where it is.

**Mr Phillips:** All right. Just to follow up a little bit on some of these sales of—I gather it is the intention of the government this year to sell some more government buildings. Is that this figure, 1994-95?

**Mr Christie:** Yes, 1994-95.

**Mr Phillips:** How much in government buildings? How much revenue do you anticipate getting from the sale of that?

**Mr Christie:** I believe there's \$250 million scheduled to be sold. I'll be corrected—no, that would be correct there.

**Mr Phillips:** It's \$250 million this year of government buildings? Now, last year we sold a lot of the prime stuff. We sold the Frost building, the Macdonald building, the Michael Starr building, all the good stuff around here. Where's the other \$250 million? Are we down to the jails yet? Have we sold any jails?

**Mr Christie:** Barbara Stewart is the director of our capital and crown corporations branch.

**Ms Barbara Stewart:** My name's Barbara Stewart. We have not yet seen the final list of properties to be sold this year. The transaction is yet to take place, and it will be a variety of buildings, but I can't confirm one way or the other, Mr Phillips, as to whether there are jails in those transactions. They'll largely be a variety of fairly small buildings across the entire province, but they will be buildings that are marketable from the perspective of the ORC, on the one hand, or ones that we wish them to manage on our behalf, so it'd be an ongoing program of government.

**Mr Phillips:** So it might be similar to the Michael Starr building or the Macdonald Block or the Frost building?

**Ms Stewart:** Potentially so, yes, although I think you're quite right, that most of the larger assets have been sold.

**Mr Phillips:** And will they be office buildings? I understand we had been thinking about selling off some of our jails and stuff, or is this just strictly office buildings still?

**Ms Stewart:** I can't confirm precisely what's going to be in the package, but the focus will be on office buildings and/or properties that are marketable.

**Mr Phillips:** But it is possible it could be a jail or a courthouse.

**Ms Stewart:** It is possible.

**Mr Phillips:** When will we know that?

**Ms Stewart:** We'll certainly know by the end of the fiscal year.

**Mr Phillips:** All right. But you will continue to show that as revenue, even though the auditor has said that's incorrect, to show it as revenue?

**Ms Stewart:** It's the way the budget plan is arranged for the current year.

**Mr Phillips:** Last year we sold and then bought the GO trains back in Bermuda—I think it was the Bermuda Leasing Co or a Bermuda holding company; I forget the name of the company—and a deal done in Bermuda I guess sold it and bought it back in half an hour or something like that. We're planning this year to sell ferries and airplanes and other assets. What other kinds of assets would we be selling off? I gather we're selling them and then leasing them back.

**Ms Stewart:** It is primarily aircraft, ferries. That's about it for the package now.

**Mr Phillips:** There's \$165 million. Again what the auditor has said was incorrect, but we'll proceed with that.

Changing the subject just slightly, I gather that it is still the plan on the driver's licence, where you buy now a five-year driver's licence, we're still showing all of that revenue in the year it's collected as opposed to—will that mean, because I think you started the five-year driver's licence in 1993, that in 1993, 1994 and 1995 we collect five years' worth of revenue and then in 1996 and 1997 there will be very little revenue from driver's licences available?

**Mr Christie:** It will depend entirely, I guess, on how many people elect for the extended term.

**Mr Phillips:** Do you have a choice of a five-year licence?

**Mr Wiseman:** You can do one. You can just do it one year at a time.

**Mr Christie:** You can do one. You can do from one to five, as I understand. I've certainly personally done one, so I assume that's all right.

**Mr Phillips:** But the ones that pay the five years, you're showing all the revenue in the year it's collected.

**Mr Christie:** That's right. The ones who choose the longer terms, on the budget accounting system or presentation system the cash is shown the year it flows. The ultimate impact, after it's been in place for a while on a cash basis, will depend upon the proportions that select.

**Mr Phillips:** In terms of the federal infrastructure



spending, the joint program with the federal government, where I gather it provides a third of the spending, the province provides a third of the spending and the municipalities provide a third of the spending, are you showing on the government's books the federal capital spending, whatever it is, a couple of hundred million dollars federal infrastructure spending—is their portion of the federal spending in Ontario's capital expenditures?

**Mr Christie:** Yes, sir, it is. Their contribution is shown as a revenue, and then our disbursement of our contribution and their contribution to the local level is shown as an expenditure.

**Mr Phillips:** So you've taken whatever money the federal government spends on infrastructure in Ontario and shown that as revenue and then added it on to the capital budget of the province. Had you considered doing the same thing with the municipalities, to report their spending as part of your spending?

**Ms Stewart:** We actually administer the federal portion of the spending on their behalf, which is why we're receiving their funding as revenue and then expensing it out to the estimates process. We aren't administering the municipal share. In fact, the way we're treating that federal share of the infrastructure program is quite equivalent to the way a number of other provinces would treat it and the way we treat similar payments, like

CAP refunds, that relate to a specific spending program.

**Mr Phillips:** I remember an exchange, actually, with the Premier, who said I was absolutely dead wrong in saying this was the case and that I should apologize to everybody.

**The Chair:** On that note, Mr Phillips, I thought I'd let you—

**Mr Carr:** Are we out of time?

**Ms Stewart:** That's been clarified.

**Mr Phillips:** So I was right and he was wrong. And you plan to continue to do that. Is anybody going to tell the Premier?

**Ms Stewart:** Actually, we already have.

**Mr Phillips:** Have you? Okay.

**Mr Kwinter:** Are you also going to take credit for spending the whole amount that is being spent by Ontario?

**Mr Wiseman:** Well, if the feds are trying to take all the margins—

**The Chair:** At this point I'd like to thank the Ministry of Finance staff for ably assisting the committee with answering its questions this afternoon. This committee stands adjourned until 10 am tomorrow morning.

*The committee adjourned at 1604.*







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ISSN 1180-4386

## Legislative Assembly of Ontario

Third Intercession, 35th Parliament

## Assemblée législative de l'Ontario

Troisième intercession, 35<sup>e</sup> législature

# Official Report of Debates (Hansard)

Tuesday 7 February 1995

# Journal des débats (Hansard)

Mardi 7 février 1995

**Standing committee on  
finance and economic affairs**

**Comité permanent des finances  
et des affaires économiques**

Pre-budget consultations

Consultations prébudgétaires



Chair: Paul R. Johnson  
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## LEGISLATIVE ASSEMBLY OF ONTARIO

## ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON  
FINANCE AND ECONOMIC AFFAIRSCOMITÉ PERMANENT DES FINANCES  
ET DES AFFAIRES ÉCONOMIQUES

Tuesday 7 February 1995

Mardi 7 février 1995

*The committee met at 1004 in room 151.*

## PRE-BUDGET CONSULTATIONS

COMMITTEE ON MONETARY  
AND ECONOMIC REFORM

**The Chair (Mr Paul R. Johnson):** The first presentation this morning is Mr William Krehm, chairman of the Committee on Monetary and Economic Reform, if you would please come forward and make yourself comfortable. I'll remind you that you have one half-hour within which to make your presentation and to field questions. Whenever you're ready, you may proceed.

**Mr William Krehm:** I will try to keep my presentation within 15 minutes, with a danger of overrunning a few. Perhaps you'd let me know when the 15 minutes have come because I would like to give members of the committee an opportunity to ask questions and to even play the devil's advocate.

**The Chair:** I'd be pleased to do that.

**Mr Krehm:** I'd bet dollars to doughnuts that every last member of this committee knows about the editorial in the Wall Street Journal early in December nominating Canada as "an honorary member of the Third World." However, if you depend on the Globe and Mail for your information, you will not be aware of a front-page article in the Wall Street Journal that pursued the matter of the Mexican meltdown, with very contrary conclusions. It appeared in the January 30 Wall Street Journal, front page, and another one yesterday about the responses of the government in Manila, the Philippines, about this.

We had had it drummed into us that the one way of dealing with our debt and the pressure on our dollar was to put on a blindfold and slash social programs: "Don't ask which and don't ask when. Get it done with." But under the impact of the Mexican peso's collapse, it appears that there is, after all, a way of handling an exchange crisis other than panic. It's very simple, says the Wall Street Journal: exchange controls.

With that scaffolding to keep the sky from caving in, we could go back to a whole menu of policies that helped us cope—I'm talking of Canada now—with a deficit that amounted to 142% of the gross domestic product after the Second World War. By 1975 that percentage was down to 22 and a fraction, and we are now having panic sowed because that proportion has got back to somewhere in the 70s.

But let's listen to the Wall Street Journal's front-page article. "The dizzying [Mexican] reversal raises new questions about whether unfettered private capital flows really facilitate economic development." It was more than

a meltdown, by the way, of the Mexican peso. It was a meltdown of the dogma that has driven economic policy, financial policy, for the last 20 years and brought us to where we are.

Exchange controls are the ultimate no-no in the dogma in question. This has set us up as helpless prey of hot-panted international money speculators to the point where a few weeks ago a Bay Street money changer had the gall, on the heels of the Wall Street Journal editorial, to predict that the Canadian dollar would slip into the low 60s, and on the strength of that the Bank of Canada raised interest rates almost by a full per cent.

The Bank of Canada was founded in 1935 not to serve as a patsy for international money speculators. It's time that we realize that and it was time that we sought out alternatives still on our law books to deal with these trumped-up international currency crises. In the Bank of Canada Act there are still provisions for defending this country against such scams. There is no limit on the amount of federal or provincial bonds that the Bank of Canada can hold. And when the central bank holds federal bonds, the interest paid on them reverts substantially to its one shareholder, which happens to be the government of Canada. That's not funny money. That's the good capitalist institution of dividends.

With the financial scene dominated by such shenanigans, nobody in public life, no matter what party he may belong to, has the right to remain ignorant of the changes that have taken place in the ground rules of banking over the past few years. Without serious discussion in Parliament, the Bank Act—I'm talking of the Bank Act, not of the Bank of Canada Act—was revised in 1991 to do away with the reserves that the chartered banks had to hold against their loans. Those reserves earned the banks no interest, so to help the banks out of the mess they had gotten themselves into financing speculative mega-real-estate deals and speculative megatakeovers, the reserves were abolished. Along with the United Kingdom and Switzerland, Canada is the only country that has abolished the reserve requirements for its private banks.

1010

At the same time, the Bank for International Settlements, the central bankers' club in Switzerland, to the sessions of which Mr Martin would not be allowed, introduced new risk-based capital requirements that stated that government bonds, being risk-free, require not a penny of the banks' capital at all, whereas loans to business require 8%. Naturally, this has led to the banks turning their backs on the needs of business, especially

small businesses, and they have loaded up to the gills with government bonds.

Over the last four and a half years, the holdings of our chartered banks of federal government bonds have gone up from \$3.5 billion to \$35.5 billion—that's an increase of 900%—whereas the holding of the Bank of Canada of federal bonds has gone down from \$10 billion to \$6.4 billion to make room for the increased holdings of the chartered banks. That, at current interest prices, represents a social aid program to our chartered banks in excess of \$3 billion a year.

Of course, government bonds are really not risk-free, if you consider that our central bank is still pursuing a zero inflation goal through higher interest rates. Our newsletter, which every member in the Legislature receives and I hope reads, predicted the meltdown of bonds almost two years ago. It has happened. Bonds, with higher interest rates, have plummeted and you have had mutual funds, pension funds and financial institutions in a disastrous state which is just beginning to come to public attention.

At the last meeting of the Toronto-Dominion Bank an irate and very well informed shareholder raised the point of what the losses were on the vast hoard of government bonds, and the answer was, more or less, that since they're going to hold them to maturity, then there is no loss. But meanwhile, that means that \$35.5 billion of bank money is frozen, because if they sell their bonds now in order to make their capital available for loans to business, they will sustain losses.

Our deficit, our debt and our recession have largely been byproducts of Bank of Canada policy and these most recent revisions of the Bank Act. I haven't time to go into details except in the question period, but the fact is that for years under John Crow our short-term rates were kept over 5% higher than the American short-term rates and that is why the provincial governments of Ontario and other provinces went outside the country in order to get lower interest rates and this of course is the bugbear that they are scaring the wits out of the Canadian public with today.

What has all this to do with the government of Ontario, which is not a shareholder in the Bank of Canada? Can it do anything about the situation except suffer? The province of Ontario and its people have an immense vested interest in the Bank of Canada Act. Under its article 18, which every member of your Legislature should read and memorize, the Bank of Canada is empowered to advance to the provinces one quarter of their anticipated revenue—this is short-term—until the end of the first quarter of the following year. But as I have already said—or have I?—it is also empowered to hold provincial bonds with no limit or even debt guaranteed by the provinces.

The only constraints, and obviously there have to be constraints to these powers, are to be found in the real economy. If in fact we have a boom that's getting out of hand, for example, the building industry in 1988 with the collaboration of the banks, then obviously we have to restrict that and the way to restrict it was by raising reserves instead of raising interest rates. But reserves

have now been abolished and that alternative way of fighting inflation is not on the books. We can put it back again.

Ontario, first of all, is the victim of Bank of Canada policy as much as and even more than most of the other provinces. This was a prosperous province and should be a prosperous province. It's got to educate itself and its public. It's got to ask questions. It's got to insist on honest dialogue instead of the bogus charade that the Finance minister in Ottawa has been conducting. We must listen to the alternatives. We must ask why what worked in the most prosperous 20 years in the history of this country should be completely ignored. But beyond that, the province has to send out signals—urbane signals but firm signals—that there is no reason for our being at the mercy of money speculators.

There is in existence in Ontario the Province of Ontario Savings Office. You'd hardly know it. However, with the chartered banks paying as low as one quarter of 1% in savings accounts—some of the banks do; others go as high as 0.5%; I'm talking of the big chartered banks—the provincial savings bank could be far more generous to depositors and still bring money in for constructive use, investments, at a time like this, without having to go abroad. At least the point could be made. It would be a signal. That signal is long overdue.

There is, however, another plan that I would like to develop and then I'm at the end. I've been advocating this for many years. There is no question about our economy becoming tax saturated. The taxes, legitimate ones for legitimate ends, have risen to such a point to run our complex, urbanized, high-tech society that they are messing up the signals of the price system. So what we design in the way of policy should be headed towards detaxing the economy and finding alternative sources of revenue, alternative to more taxation for the public sector.

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**The Chair:** Mr Krehm, I just want to let you know, as you requested, you've just gone beyond your 15-minute mark.

**Mr Krehm:** All right, I will hurry up.

I do want to outline this: The policy should be designed with parameters headed down rather than up; not raise interest rates, not raise taxes, because that will continue it.

Let's refer to street smarts. Forget about high economic theory. If operator A sells something to operator B and both of them are allergic to paying taxation, there is a classic scam. That scam consists of invoicing the price of what is sold well below its real price and B lending A the money at far less than the going market rate of interest.

Now, suppose the government pursued a legitimate version. That, of course, is a scam; the tax people would not take kindly to it. But suppose the government of the province pursued a version of this that would be highly legitimate. In short, it could offer tax bonds to the taxpayers long-term, not to defer a portion of their taxable income but to give them all-time exemption on that portion of the taxable income. The tax bonds would run for long-term, 20 or 30 years, and the rate paid on



them would be far, far below the market rate, say, one half of the market rate.

The province would recoup the interest forgone in two ways: first of all in the lower coupon on the bonds, but secondly for the last almost 50 years, 40-some years, we have had a price gradient, prices inching upward fast or slow. It was not all inflation. Some of it was solid investment that transformed this country from a semirural land into a highly urbanized, better educated one, better living one. This doesn't show up in the price index because people don't buy fresh air by the pound, there's no meter on our noses, but that is a benefit that eludes the price index.

Now, under the tax bond scheme, if this should continue even with the detaxation of the economy, then there would be less capital gain when the bonds fell due and had to be repaid. That is, if it continued, there'd be a greater capital gain because after 20 years the real value of the dollar would probably be worth 60% of what it is today.

If it failed in that respect and the price gradient continued fairly high—no, the contrary. I have set it out. If the price gradient were tamed, there would be less capital gains but we would have moderated the price movement without ruining the economy.

Now, you could also attach insurance features to this plan for death of a breadwinner, for disability, for long-term involuntary unemployment. The bonds could be cashed in, redeemable at par, which would represent a bonus. Now that our social programs seem to be headed for slashing, such supplementary social programs would be very, very timely.

That's all I want to say as introduction. I apologize for having run over my 15 minutes.

**The Chair:** Thank you very much. We have about three minutes per caucus per question and answer and we'll start with Mr Kwinter.

**Mr Monte Kwinter (Wilson Heights):** Mr Krehm, I read with interest your presentation, and I in fact read regularly your newsletter when it comes to me.

**Mr Krehm:** Thank you.

**Mr Kwinter:** I have a concern in your sort of premise in that it seems to be almost an isolationist point of view in that all you deal with is the central bank and what it has the ability and not the ability to do, without taking into account external factors and the fact that we are in a global economy. Can you tell me, for example, I think all economists agree that there just isn't enough capital—

**Mr Krehm:** All economists agree on nothing, Mr Kwinter.

**Mr Kwinter:** Well, I'm saying that they all agree in varying degrees to the fact that there isn't sufficient capital generated within Canada to meet the needs of the central government, of the private sector and of the debt obligations of the various levels of government and, as a result, we have no choice, we have to go out and attract investment outside the country.

In order to do that, we have to have a competitive interest rate, so that if the United States has an interest rate of whatever and it increases its interest rate, then it

becomes more attractive for foreign investors to put their money into the United States. If we want to attract money, we have to at least match, and because of our high debt ratio exceed, that of the United States, which is one of the factors that determines our interest rate. Do you have any comments on that?

**Mr Krehm:** I certainly have. It is a fiction that we have to borrow savings from abroad. I have the advantage over you, Mr Kwinter, that I remember the 1930s very vividly, and there were only holes in Canadian pockets when the war broke out. How in hell did they finance the war with a minimum of foreign borrowing and go on to finance 20 years of prosperity? When we push up interest rates, we make our exports uncompetitive and we make our manufacturers uncompetitive on the domestic market, and this is what has happened.

Now, don't take that on faith value. The last time I was here, Mr Kwinter, you asked, "If it's such a good idea"—that was some years ago—"why hasn't it been done?" It has been done. Go back to our history. We have been brainwashed in a reverse of archaeology. Archaeologists dig up the past; the people who run our media, and the government, unfortunately, Ottawa, bury our history. Let us consult our history. Let us have dialogue; nothing more. Let us have dialogue.

**The Chair:** We have to go on to Mr Carr.

**Mr Gary Carr (Oakville South):** My question was similar to Mr Kwinter's. As he stated, we are in a market economy whether we like it or not. The people who are supporting our social programs are foreigners who are giving us the money to pay for it, and when the bonds come due, they can move it to Switzerland, Japan, the United States, without even going to the bank.

You seem to be saying, and I know you talked a little bit about the tax bonds, that there's some other alternative. Could you explain to me—I know you've done it once, but I still haven't been able to grasp how we can get money to pay for all these programs or to pay for the government spending without going to the people who are holding the debt.

I still, and maybe it's me, can't comprehend where you're going to get the money, because the foreigners right now are the ones who are supporting it, and if the interest rates don't reflect, then they can move it tomorrow without a bat of an eye, and then we're really in trouble, because then we're talking about slashing the programs because we can't afford to support based on our own savings. Could you explain to me where we would get the money if the foreigners don't invest?

**Mr Krehm:** Yes, I will try. First of all, I must say that tax bonds are not advanced as a solution, as the overall solution. It is an example of the type of policy that could be formulated if we cleared our minds of what has been crammed into them.

**1030**

First of all, as advocated on the front page of the Wall Street Journal, we could resort to exchange controls if the dollar came under pressure. This does not mean that people couldn't get exchange, but those people who go to

Florida might perhaps have \$1,000 instead of \$10,000 or whatever they want to spend. This has been used. Let us consider using it again. In that case, by keeping our interest rates reasonably low, we would export more and our dollar would be strengthened by a strengthened real economy behind it instead of just the manipulation of an artificially high dollar. That is how we got into debt.

I would suggest, Mr Carr, that you study what happened. You will find indications of it in the newsletter that we publish practically on postage stamps, but you will see references to other books, to the history of Canada, and see that what we want is dialogue. We're not giving you gospel. It has been done. Let us study how it was done. Since this is one of the most victimized of our 10 provinces by John Crow, let's look into the matter.

**Mr Carr:** Thank you very much. Good luck.

**Mrs Karen Haslam (Perth):** I'm going to ask two very brief questions, and I know that the Chair is going to ask for two very brief answers, so we'll do our best, right? It's always fun to be at the end when there's no time left.

Two points: Number one, I'd like your comments on whether it would be a good idea for Ontario to offer savings bonds. You seem to talk about Ontario tax bonds, but I wondered if you would make a brief comment on the idea of Ontario offering savings bonds to the people to keep the money back into our own province, because I've always liked that.

The second thing is, you've talked about a "long overdue program of educating the public to our real economic problems. Let's have dialogue. Let's study." Would you just make a brief comment on how you feel we can educate the public to the real economic situation that we have out there?

**Mr Krehm:** As far as bonds are concerned, that is fine, but you will find, of course, that as long as the government of Canada pays higher rates to attract foreign money, the province is going to be at a disadvantage. I think the point can be made best in the savings field, because if you consult your Monday Globe and Mail any week you will see what the chartered banks pay on savings accounts: one quarter of 1% in most cases.

If it were just a few tens of millions of dollars that were attracted, the province would be making a point. The spread between the loans when made by the chartered banks to business and what they are paying that famous saver, that's not much encouragement, is it? It has been indecent.

Your other question was, where do we—

**Mrs Haslam:** Let me just say I agree with you. I've just done my reconciliation at the bank and couldn't understand why I was leaving my money sitting there at a quarter per cent when there were other places to put it. So I agree with you in that area, but the other area was a "long overdue programs of educating the public. Let's have dialogue. Let's study." I just wondered if you had a point of how that could be done a little more, how you get that message out to the public at large.

**Mr Krehm:** Since we, the province, are the victim—and politicians particularly; because you are really put in

a mug's game with no funds and good intentions, you end up the villains—just study how it was done, ask what the alternatives were. Just start with the banks. We have had six bank annual meetings and the CEOs started in choreography by lamenting how the people of the country have lived beyond their means and then after that came the record earnings and the record salaries.

**Mrs Haslam:** Profit.

**Mr Krehm:** Nobody wants to quarrel with the banks. We want to quarrel with them, but we want to lure them back into banking. We're not enemies of the banks. You can't run an economy without banks. But they're abandoning their field. Just ask questions, urbane questions. Then comes up the question of the \$3-billion annual social program that the government of Canada has given the banks. There is, by the way, a table on that at the end. The sources are entirely from the Bank of Canada review.

So start at any point. Let's be proud of our history and not bury it, because that is the clue for alternatives, and nobody's asked to swallow these alternatives. Let us have discourse.

**The Chair:** Our time unfortunately has expired, and I want to thank you, Mr Krehm, for making a presentation before the committee this morning.

#### ONTARIO COALITION AGAINST POVERTY

**The Chair:** The next presentation this morning is by the Ontario Coalition Against Poverty, Mike Lerner Metro Toronto organizer.

**Mr Mike Lerner:** Before I begin my speech I just want to tell you that the Ontario Coalition Against Poverty is a group that represents the poor and unemployed of this province. We have 16 member groups across the province, ranging from northern Ontario to southern Ontario.

I just wanted to say that I understand that the federal budget will have a lot of say in this budget. I understand that the Liberal government is planning to cut the Canada assistance plan and replace it with block funding to fund social services. I understand that will put pressure on this government to pass those cuts on to its programs. Also Ontario has been hard hit by the Progressive Conservatives putting a cap on the Canada assistance plan in the early 1990s. As I understand it, 30% of the money that's spent on general welfare assistance is provincial dollars and 50% is provincial dollars to family benefits allowance.

What I want to say is that in the last few years the provincial government has undertaken welfare reform. Basically, what they're doing is, they're tidying up the eligibility of the system of the welfare and family benefits systems. What that is leading to is that agents of the government, representatives of the Ontario government, are being asked to make most of the cuts being brought down. As many of you already know, the administration of a system is probably the key way that you can make cuts, by tidying up the eligibility, adding a few policies. You don't have to say in the media that you're making the cuts, but cuts can be made by denying people what they're entitled to.



I run an advocacy committee called the Toronto Direct Action Committee. We've helped approximately 60 people on welfare and family benefits get cheques by just fighting the administration of it, either municipal or provincial. I just want to say that what the cutbacks agenda is leading to is a few tactics that I want to bring to your attention here today. One of them is arbitrary conduct. Most workers may cut someone off for any reason. I'm just going to give you a few examples of certain situations.

A young high school boy who was in grade 13 came to us. His father had been laid off, and so in order to maintain going to high school he had to get welfare. His worker had cut him off because he considered that grade 13 was post-secondary education, and just after that he was forced to quit school.

Another one is stalling tactics. Quite often, welfare will put procedural roadblocks in front of people. If you have to bring three documents in, they'll ask for the first one and then, when you've brought that documentation, they'll ask for another to stretch out the amount of time you're waiting for assistance.

The other thing is that unproven allegations often lead to people being cut off. This has been enhanced by the provincial government's hiring of 270 welfare cops, or eligibility review officers, as you like to call them. Just presently, I had a woman, a single mother of four, come to me crying and sobbing because she was cut off welfare on the last day of the month.

That means she and her four children will have to go an extra 10 days with no assistance and her landlord is now harassing her for the amount of money that she owes in rent. Basically, what happens is that anybody can call in any complaint and call welfare and say, "This person, her husband is still living with her," or something of that sort. What will happen is welfare can cut you off for that without proving that those allegations are in fact correct.

Now, also as serious is the problem of people with no fixed address. Quite often, people with no address or the homeless people are left on the streets of Toronto or other areas for up to four weeks waiting for a measly \$250 from welfare. A couple of cases that have been brought to my attention are people who have contracted AIDS, HIV, by blood transfusion, mostly people who are haemophiliacs. They got \$6,000 from the Canadian pension plan just recently. Welfare has taken \$3,000 from each of these people because you're only allowed to have so much assets on welfare.

1040

What has happened to these people is they have actually, by an error by the Red Cross in the early 1980s and the way we treated AIDS at first, contracted HIV and when they are able to get a measly \$6,000 for their life, they weren't even able to spend it on themselves and get themselves—a man who called me wanted to buy a nice bed because he's bedridden most of the day. What happened is that the bed cost more than he was allowed to spend and now he has been cut off for a few months from welfare.

So I'd just like to say that when government makes

cuts to social programs, invariably people will be thrown into the streets, because as it filters down through the system, eventually a few people will have to be cut off the system.

Right now, I understand that the federal government is offloading all the responsibilities on the province. I know the cuts to transfer payments and I understand that the CAP being capped has hurt this government considerably, especially as well since the recession in the 1990s and the rolls in Ontario have probably doubled in the last five years.

What I want to say is that fighting the government offloading is important, because the amount of money that you give to people on welfare, on social assistance, directly affects the wage levels in this province. I know our programs are means-tested, but if a worker has a measly welfare to fall back on and a boss knows that, they're able to push the worker and the workforce to do things that they may not want to. As well, if you have a whole bunch of desperate people out there looking for work, it tends to push wages down. If someone was offering \$7.50 an hour and they got a flood of applicants who are desperate, they can easily say: "Why am I paying that extra amount of money? I can easily pay minimum wage." So it tends to bring down wages.

I just also wanted to say there is a fiscal deficit and there's real deficit out there. I've had people come to me who just came out of prison and since they did not have ID they had to wait on the streets of Toronto for four weeks in order to get money. Now, you take someone who just got out of prison and has to wait four weeks with no money, obviously they're going to be tempted to commit a crime. The fact of the matter is you cannot push people off the system. People will not starve in silence. When you make cutbacks, you're going to force people to commit crimes, there will be higher domestic violence and you're going to have to step up policing.

I just want to say before I close here that basically there's a lot of misery out there, there are a lot of people suffering. I think if you offload the cuts back on these people, it will come back to haunt this government.

I just wanted to make a statement directed to the government, especially since the NDP government made a lot of promises before it came into power. I think they're facing circumstances as they're soon realizing that if they don't change their fiscal planning, they'll have no one to knock on doors for them in the next election. That's basically all I have to say to the committee today.

**Mr David Johnson (Don Mills):** Thank you very much for your deputation. Certainly you have raised some good issues from the point of view that welfare is a problem and has been a problem in the province of Ontario. I'm just trying to recall the statistics. I think the caseload in 1985 was about 250,000 people in the province of Ontario. Even during the boom years, the final five years of the previous decade, 1985 to 1990, when the economy flourished, the welfare rolls grew by about 50%, which is incredible, in the province of Ontario. You'd hope that the welfare rolls would go down, but they did increase.

Then over the last four or five years, since 1990, I

think, as you indicated, the welfare rolls have just about doubled in the province of Ontario, so they stand at somewhere around, I believe, today about 670,000 cases, representing over 1.2 or 1.3 million people in the province of Ontario, and that is indeed a tragedy.

What's happening, I guess, as you've indicated, is that the federal government is taking action to cap the welfare rates. From their point of view, I think, being in their shoes, the federal government certainly has an enormous problem. The debt that this country is facing and the annual deficits cannot continue; they have to be addressed.

I think the federal government has expressed concern that the welfare rates in the province of Ontario on average are considerably higher than the welfare rates across the rest of Canada. The last couple of governments that essentially put the bulk of those rates into place would probably say that that's because the cost of living in Ontario is somewhat higher. Nevertheless the federal government cannot, from their point of view, match rates which escalate at an extremely rapid pace in the province of Ontario, and I assume that's why they put the cap on.

In terms of offloading on to the people, that's happening, and there's no way around it, because the deficits in the province of Ontario over the past four years, the real deficits, the increase to the debt in the province of Ontario each and every year has been over \$10 billion. That's why the debt in the province of Ontario has increased from somewhere around \$42 billion in 1990 to \$90 billion as it stands here today.

What happens when the debt gets that high is that the interest rates to pay for that debt escalate. It's not surprising that the interest rates have doubled from 1990 from \$4 billion in interest in the provincial budget to \$8 billion this year. For sure they'll go up another \$1 billion in next year's budget, and that's just interest to pay the debt.

Then the problem is that with that money that goes to pay the interest—and a lot of it now is going offshore, Japanese investors, European investors, not staying in Canada—and what happens when that interest goes up is that there's less money to pay for welfare, there's less money to pay for health, there's less money to pay for education.

Indeed, if you look in the budget of the province of Ontario for the last couple of years, you'll see that in actual fact the amount of money for education and training has gone down and the money for health has actually gone down; not by much, but by a little bit. The void is being picked up just to pay the interest on the deficits. So there's a form of offloading on to the people of the province of Ontario, in the sense that they're getting less money for services, less money for health, less money for education.

So it's a problem, and when we talk about fraud and the extra police that are put out, I know one of my constituents in my riding within the last year was noted for paying for, I think it was, two or three houses and convicted of welfare fraud to the tune of, I think it was, about \$150,000.

**Mr Lerner:** Do you have a question, sir?

**Mr David Johnson:** I'm simply stating some of the background, and I'll give you a chance to react to it.

**Mr Lerner:** Okay, sure.

**The Chair:** You have two minutes left, Mr Johnson.

**Mr David Johnson:** But that's why it's important to address fraud, because everybody else suffers. If there's fraud, then those who should get the service suffer. That's why it's important to address the deficit and the debt of the province of Ontario. I think the best thing, and you will surely see this, working with people who are on welfare, that the majority of them want to work, and the best thing that we could do in the province of Ontario is to push forward a platform, an economic policy and platform, that would enable people to get back to work. With that, I'll stop and let you react to my comments.

**Mr Lerner:** Basically I think when you cut welfare you're not really going to save anything. Now, you think you may make some wholesale cuts across the board, maybe make a rate cut because you think that Ontario rates are too generous, but the fact of the matter is that when you cut rates you also create not only—I mean, there is a deficit out there of people who are obviously cut from any sort of civil society, but there is also a debt that people will commit crimes. You cannot force people off a system when there are no jobs out there. Unemployment is going to remain high. Basically, when you cut people out of welfare you force them to steal and you have to step up policing.

**1050**

Now, when you talk about welfare fraud, yes, there is about 2% to 3% welfare fraud, and basically when you cut back on fraud that's not a money-making deal; you just pay for the extra staff that you have to hire to step up eligibility. It's been proven in Quebec. Robert Bourassa did it in the late 1980s and Bob Rae's attempt has probably basically broken even.

Right now on the Toronto Stock Exchange they have 10 people who handle all stock fraud for the whole system. There was an article in the Star. That's definitely not a left-wing paper by any means.

**Mr Carr:** The Toronto Star is not a left-wing paper?

**Mr Lerner:** I mean, honest reporting; it's not a left-wing paper. Anyway, what they said was that they cannot keep up with all the fraud that's going on. So it's not really the fact that there's not money out there.

I understand your concerns with the debt and the deficit, but you're not going to really get the savings that you want from cutting welfare. There's no savings out there. If you save a small amount of money, you'll lose a lot in the type of society you'll see created out there, and you're already starting to see it. The hostels are jam-packed; there's no room in them. You cannot keep forcing people into hostels. Once you start creating misery on that level, you are going to see it come back at you one day and it's not going to be pleasant. That's all I have to say.

**Mr Norm Jamison (Norfolk):** Thanks for coming today to make your presentation. As you know, we're here to listen to the views of all Ontarians about what kind of budgetary arrangements should be made for the



upcoming year. Of course there's been great emphasis put on the whole question of deficits and debt and taxes and all of the things that are out there today: front-line, head-line kind of stories about where we are as a people both here in Ontario and in Canada as far as deficits are concerned. It's my point of view that that's a very important issue and I'm sure many of the Canadian people and the people of Ontario also recognize its significance.

But there are two kinds of deficits; one you can deal with directly with the cut, slash and burn mentality that seems to be more prevalent today than ever before. My fear is that if you go with that in a very direct, short-term approach, you run a very real risk of creating a much larger social deficit, and I'm not sure that one deficit is any worse than the other when we speak about those two. There are people—I think people even within this room—who are talking about just that: talking about cutting levels of payment; people here who express views, and certainly views about another Premier, Premier Ralph Klein, who takes pride in putting welfare recipients on buses with one-way tickets. I don't believe, again, that we should create a larger social deficit when dealing with the real problem of bringing deficit levels down.

What do you envision, as far as where you're coming from is concerned, as the needed changes in the system that will not just in the short term but in the long term serve to help people in their futures and allow them the ability to really leave at one point or another the assistance that many people—and I would say the vast majority of people on welfare—really wish they didn't have to receive?

**Mr Lerner:** A few of the logistical problems that I've run into is there are a lot of people who want to get off the system, but it seems that the administration of the system is—true, obviously government planning is being harder and more rigid.

There are people who are actually trying to get themselves out of the system, but they run into roadblocks, like OSAP. If you want to go back to university and take out loans, loans are considered income for welfare, so something like that will prevent people from going out there and getting training.

So the system in itself does not make sense. It's not trying to get people off the system; it's trying to actually either keep people on the system or try and just get them off the system on the streets now. When you have no fixed address, when you're homeless, it's the hardest to get welfare because they've got a chance to get you off the system, they've got a chance to move you just like Ralph Klein. It's just done under the table here.

The welfare rates in Ontario are the highest in the country so that's why a lot of people come here. A lot of people from Alberta have been coming here because they're just simply starving in Alberta and they come here.

But as far as the debt and the deficit is concerned, I think it's ludicrous that we have people sleeping on the streets, having actually to sell crack or their bodies 10 minutes away from where people have millions and billions of dollars hidden away and we don't go after that. The fact of the matter is there is misery out there

and we're not doing anything about it except enhancing it and that's basically my point.

**Mr Gerry Phillips (Scarborough-Agincourt):** Just to see if we can get some advice from you on how we can perhaps deal more effectively with our social assistance system, and it's a challenge, I think, yesterday we had some statistics from the Ministry of Finance, and the federal government's payments for social assistance to Ontario have gone up an average of 10.5% a year for the last 10 years. It used to be that the federal government, I think, provided \$860 million, according to these numbers; the year that's just ending, they're providing \$2.6 billion.

As I say, it's gone up an average of 10.5% every year, which is a challenge. The economy isn't growing at that rate; there are a lot of demands on government spending. Even in the last two years, while employment's been growing in Ontario, the money from the federal government has gone up, I guess, around 15% over the last two years for social assistance.

Even when we saw probably the best growth we've seen in the last five years, in 1994, the year that just ended—actually the number of people, as you know, on social assistance went up again. So we have a challenge. It's finite resources being asked to serve infinite demand. This is one of the areas where, as I say, the federal government has provided transfers given through the province, increasing an average of 10.5%, 10.7% a year for the last 10 years, and yet the message is, "That's nowhere near enough."

My question to you is—you know the area quite well—have you any advice for us on how we can spend our money more effectively, how we can assist people in this area and how we can perhaps look at some ways to economize in the area?

**Mr Lerner:** I don't know how you can economize it as well, but I know that this government is probably considering some sort of workfare; I'm sure they're all considering that.

Basically, the reason why the amount of people on social assistance has gone up recently is because UI requirements have been tightened as well and what you have to look at is that there are some logistical things you can do to the system to make it run a little better, but it's not going to do a whole lot.

The fact of the matter is there are no jobs out there. There were a couple of jobs in that Pickering auto plant; 20,000 people came. It's not the question of people who don't want to work, it's the question that there are just no jobs out there, but if you go into workfare—which I think this government may be considering; I think it's on the table as well—as far as social assistance is concerned, you're basically creating a disincentive to employ people. That's why I say steer away from welfare. I would also make it easier—first of all, there are 20,000 single mothers on welfare. There are people being on the wrong system as well in this province, so you have to make sure that there are different needs met, especially people who are long-term unemployed. There are a lot of single mothers out there and I think you have to tune the system in to those problems.

As well, I think you should do something with OSAP and welfare so that if people want to go back to university and take some loans out and if they think it's financially viable, they can actually maybe turn their lives around, because you've got women who have been in the home for the last 20 years. The job market just isn't out there for them, so they want to go back to school maybe for a couple of years, maybe in a community college, and if they get OSAP and if they're on welfare or if the single, employable person is on welfare and they want to go back to school, they can't because it's considered income.

Just a few things. That's all I can think of off the top of my head.

1100

**Mr Phillips:** The government publishes something called the Ontario Economic Outlook, which is the sort of stuff we read; not too many in the public perhaps read it. But what it shows is the number of people unemployed from 1984 to 1994 has gone up by about 110,000; the social assistance caseload has gone up by 420,000, and of course I gather you essentially double the caseload for the number of people on social assistance. What has been the cause of that? Why would there be—yes, I know more people unemployed, but the number of people, quite a dramatic increase in social assistance caseload over the decade?

**Mr Lerner:** That's the way you do stats, right? The government will say that unemployment has decreased, but the fact of the matter is I think there have just been more people who have given up. They're not considered unemployed because they're not looking for work any more. There are more people who fall in those cracks. So even though unemployment has decreased statistically, I think why welfare has gone up is because people have given up looking for work. They don't fit in what "unemployment" is defined as, what "unemployed" is defined as.

**The Chair:** Thank you, Mr Lerner, for making your presentation before the committee this morning.

ONTARIO ROAD BUILDERS' ASSOCIATION

**The Chair:** The next presentation this morning is by the Ontario Road Builders' Association, Mr Arthur Ryan, executive director. Please come forward and make yourself comfortable.

**Mr Arthur Ryan:** Thank you, Mr Chairman. I apologize; I normally have a couple of people with me to support my views, but I can't do it. The weather's bad and everything else, so I'm here myself.

**Mrs Haslam:** You were held up on the roads.

**Mr Ryan:** Exactly right, yes. There's not enough money spent on highways.

If I may, I'd just like to read my brief through and then I'll certainly answer any questions you may have.

The Ontario Road Builders' Association represents virtually all of the major firms involved in constructing and maintaining Ontario's provincial highways and municipal roads. The association was formed in 1927 and now comprises more than 170 companies in over 50 communities across Ontario. Our members represent a

large labour-intensive industry, both union and non-union, working in an area which has a substantial impact on the quality of life of Ontarians and the economic viability of the province. We welcome this opportunity to present our views to the standing committee and trust they will be given due consideration in the preparation of the 1995 budget.

**Economic development:** The roadbuilding industry is an important segment of the Ontario construction industry, which latter is the province's biggest industry, its largest employer, is Canadian-owned, largely by small entrepreneurs, pays the highest wages and is the province's largest taxpayer. These facts cause our industry to have a substantial impact on all segments of our society. We fully concur with the Treasurer's statement that Ontario "must generate economic renewal that will create and maintain jobs, attract dynamic new investment and promote business confidence."

**Economic renewal:** The government has consistently stated that economic renewal can only be achieved from jobs training and investment. In these times of severe economic restrictions, it is virtually impossible to attain these aims through normal economic and fiscal policies. We do believe that Ontario's economy is on the move. The real volume of Ontario's economic output increase of 4.5% in 1994 was attributed to job creation, some through infrastructure investment and cost-cutting measures.

**Deficit reduction:** The obsession with deficit reduction is laudatory. However, deficit reduction is not achieved only by reduction of expenditures or tax increases. Increases in revenue far outweigh the current commitment to cost reduction. Increased revenue for the most part can only be created through increased employment. We feel very strongly that this administration must emphasize the job creation aspect of the equation to achieve any substantial reduction in the deficit.

When revenues are increased through job creation, the effects are extraordinary. These increases have immediate impact on economic activity. The general confidence generated causes reduction in interest rates, and as we have seen in past years, sparks economic recovery. We must continue to foster growth. We say fight the deficit, but not obsessively. Do not slacken efforts towards job creation.

**Capital investment:** Our industry is extremely pleased that the government of Ontario has continued with its commitment to infrastructure and building renewal in this province. There is no doubt in our minds that money spent on capital investments for new highways, new roads and new infrastructure in general had an immediate and extremely important impact on economic development in this province.

We support the government's position and stance in continuing its commitment to differentiating between capital and operating expenses.

We have continued to support the formation of the crown corporations to ensure that funding for these capital programs be handled through a different manner and investment in these capital programs can conceivably be written off over the life of the project.



I'll tell you as an aside, we have taken this position for the past three years, and it was only in reading my paper this morning, the *Globe and Mail*, I guess Floyd Laughren, the Treasurer, had made that commitment too. I tell you, representing my industry, we're very appreciative of that commitment to that kind of philosophy. We fully believe in that.

If you have a capital investment, the government has to operate—and I'm an accountant by profession, so I can make these statements with some credibility. In a normal private sector industry, when you have a capital investment, you write off, on a diminishing balance or an amortization basis, the cost of that asset, and there's nothing wrong, in this economy today, with doing that. I think this may be a change of philosophy, but that's my personal view. As I say, I'll read through the brief in a second, but certainly that's the way the government has to go, and I think generally to achieve the aims we're all looking for, any government, whether it's provincial or federal, will have to assess that situation and make that commitment to—when they make a capital investment, don't write it off immediately but amortize over the life of that investment. That's the key to what's going to happen in this country in the coming years. That's just an aside from my statement here.

We are fully supportive of the partnership arrangements developed by this government. The private and public sectors working together can develop an infrastructure program which is more economical, can be built more quickly and will prove to be in the best interests of the Ontario taxpayers.

We do feel, however, that the private sector involvement in Highway 407, which is a specific project, was changed somewhat in its initial concept, and inasmuch as the government is providing the capital funding for this project, we do feel that future projects of this nature should have private sector funding involved in the process.

Infrastructure investment: The phrase "infrastructure investment" has today become a household word. The federal government announced early last year a commitment to job creation, and job creation based on the commitment to capital infrastructure investment. Philosophically, this created a change in public perception; that is, the public became more familiar with the view that sustainable growth could be achieved by job creation.

1110

At this point in time, deficit reduction is the current panacea.

For the past three years, and many of this committee here today have listened to our representations over those years, our association has always maintained that the resolution of deficit reduction is predicated on the basis of cost reductions, but by far the most important factor of deficit reduction would be through the revenue stream which can only be achieved by job creation.

As stated, we praised the current administration for their total commitment to differentiation between expenditures made for capital and operating costs. Over the past years we have dealt, as an association, with many

administrations. Each of those administrations has made varying commitments to job creations created by investment infrastructure. This current administration has followed through on that commitment.

The federal government's infrastructure investment program announced last year got off to a slow start, but has gradually started to have effect.

We do urge the Ontario government to continue pressure on the federal government to commit to a national highway program.

As an aside, the last program that was announced by the federal government was a cost-sharing program between the province, the federal government and basically the municipalities, which was a \$6-billion investment and we fully support that. The problem was initially that over the first six or seven months there was a slow process in having those funds allocated, and I'm not sure whether it's the municipalities' fault or the federal government.

For some reason, it seemed to be that the federal government, in a sense, had provincial approval, but almost bypassed the provincial mandate and went directly from the feds to the municipalities. The municipalities at that time spent money on areas which, representing my industry, would not be deemed to be infrastructure investments. But we have no quarrel with that because I think the mandate—realistically the federal government said to municipalities, "Spend the moneys as long as it's on capital investment that will create jobs." So we support that philosophy. We're very supportive of that. It started to generate some revenues in the last few months and I think most of us in the province, whether we're general contractors or roadbuilding contractors, have supported that process.

The second phase I'll just read through now and this I'd like to touch on in some detail.

As committee members are aware, Ontario agreed in principle with the program of federal-provincial cost-sharing for a national highway program which would be funded jointly by both those parties.

Unfortunately, the federal government has recently stated that it has no funds available to commit to this sorely needed national program. However, agreements are being made regionally by the federal government with individual provinces, and it is extremely important that Ontario maintain pressure to ensure that the Ontario taxpayers become beneficiaries of these federal funds and to express very strongly to federal administrators that Ontario must be part of any regional funding program.

This is the most important issue that our association is addressing today. The transportation association of Canada three or four years ago came up with a program and they determined at that time that there was a need for a national highway program. Their forecast, if you remember, of the cost of that program was something like \$18 billion spread over a 10-year period. The federal government, which was a participant in that program, fully agreed with that process.

What has happened over the past two or three years, because of probably the political situation or whatever,

there's been a backing down by the federal government to ensure that this national highway program goes into effect. Going back a little while, one of the reasons that the federal government had not pursued the program was because of so-called Ontario intransigence in the sense that Ontario felt that they had to have a proportionate allocation of funds based on their revenue stream going into the federal government and the size of their province. The federal government said no, this could not work on that basis. We are our brother's keeper, in a sense.

Last year, the Ontario government, through Bob Rae, said, "We agree that we may have to back down a little in the sense that we will not request all the funding that we require, but we would really like to participate in this program."

In an October meeting last year with Doug Young, the current Minister of Transport, every province across the country agreed that they would pursue this national highway program and each province, exclusive of Quebec, would commit to that program. The federal government then at the last minute said, "There are no funds available."

Our problem right now, frankly—and it's not just my association, it's every association across this country: The Canadian Construction Association, the Better Roads Coalition, the Council to Renew Canada's Infrastructure, cannot believe what has happened. The situation right now is that the federal government has said, effectively, "We can't have a national highway program, but we will deal, on the regional basis, with certain provinces." The federal government today is saying that it has no new moneys available, but what it will do is reduce transfers to wheat subsidies or Via Rail subsidies, and any moneys it can accrue from the reduction in those transfers will be allocated to those particular provinces. That means that the east coast provinces, New Brunswick particularly, Nova Scotia and PEI, will benefit, and the west coast provinces, Alberta and BC, will benefit from the reduction in those subsidies, but Ontario again will not be a beneficiary of any of those things.

That's very important; that's the most important issue we're facing today. There's a lot of money involved. I'll tell you, in terms of job creation in this province, the federal commitment which this government—and I'm sure, Gerry, we have different governments here; there may be changes over the months. But certainly it's very important that whoever the incumbent provincial government is, it has to assess what's happening here, because if we're not careful, the federal government will bypass Ontario again with a major capital commitment, and the capital commitment, I tell you very quickly, creates jobs in this province. It's the most important thing my association and the other coalitions I'm involved in on a national basis are very concerned about.

I know I'm digressing from my statement. Revenue streams can be created provincially, but don't ever forget the federal participation. I think we sometimes tend now to get so obsessed with our own internal dealings that we're missing, in a sense, a lot of moneys that conceivably could be allocated to this province.

If I may, I'll just continue.

Members of this committee may not feel as committed as ourselves to the implications of the economic benefits of infrastructure investment. We can only assure those members that we have been involved, over the past many years, with advisers from various sections of the economic mainstream who have fully supported the economic benefits of infrastructure investment:

A dollar spent directly in construction generates at least the same in terms of all the ancillary industries involved in the process. A dollar spent in construction means an immediate commitment to job creation. A dollar spent in the manufacturing industry unfortunately needs much more lead time to generate specific economic returns in that industry sector.

The concern in this province today, and this may well not be reflected across the country, is a lack of confidence in the public about whether there is a commitment towards job creation and that the public can feel some confidence in maintaining the present positions or jobs they have.

This committee's responsibility, we feel, as it is the present government's, is to rebuild confidence in the Ontario public to ensure that all segments of society are working towards the common goal of creating jobs, increasing prosperity, and generally affording a stability of lifestyle that has been missing in the past couple of years.

**Public-private sector partnership:** The task ahead in the coming weeks and years is to ensure that all Ontarians become confident of a better future and are all equal beneficiaries in the process. The way to most easily achieve this aim is to promote the partnership of workers, business, communities and government. Our industry's involvement in major capital programs, working in different ways with the province and municipalities, is in the forefront of this movement.

We urge all committee members to emphasize the partnership arrangement, work more closely with industry, seek innovative means of achieving goals and challenge all parties to be proactive and innovative in their thinking.

New ideas are more and more critical to economic and social success. Let's all work together.

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**Mr Gary Malkowski (York East):** Well presented; it was very good to hear. I wanted to thank you for your comments, particularly about our job creation. We've worked very hard on that end with our Jobs Ontario Capital projects, which is a fairly big program, in building highways, for example Highway 407. Our government has a commitment to that and we agree fully with what you say.

In the Ontario government, from our own experience, we have experienced a lot of discrimination at the hands of the federal government—the previous Conservative government and the present Liberal government—in terms of transfer payments. We have been cut back and it's hurt us. None the less, we try to persevere and continue with the programs and our commitments. But I wanted to thank you for your comments, sir.



Now just a quick question. Specifically in terms of recommendations to us in our next budget, how much do you think one should spend in terms of jobs, capital projects and investment, and in building? What kinds of recommendations would you bring forward to us? What kind of moneys would you like to see put into Jobs Ontario Capital for job creation? We have a commitment to that to continue, but I'm just wondering what kind of numbers you'd like to see.

**Mr Ryan:** In all honesty, as I mentioned in the brief, this administration has committed much more than we have received from other administrations in the past. It's not a question of asking for more moneys; it's a question of maintaining what we have. Also, the key is that we would like to promote more private sector involvement.

You had a representation yesterday from the Treasurer and from the Auditor General, and there was some comment about what I guess the Auditor General termed to be off-book accounting relative to capital investment. Frankly, our association has promoted that concept for many years. It promoted that concept with David Peterson.

We have a strong position to take in the sense that when you are making an investment of a capital nature, any administration, whether it's NDP, provincial, or a PC government, has to differentiate between expenditures made for operating expenses and capital investment. We fully support that process. Whether it's through a crown corporation or whether it's through in-book accounting, or whatever the provincial government calls in-book accounting, is really irrelevant.

I tell you frankly, our association's view, and we've studied this across the world, is that if Ontario doesn't come up with the kind of program where it has the private sector, creative funding, dedicated funding, some form of other means of funding a national highway program, and new investment—not just highways; capital investments—it's going to be so far left behind it's going to curl everybody's hair. It's so obvious today, if anybody reads all the national trade papers, which I do in my industry, that everybody in the capital highway program today is looking for innovative means of financing.

This government has taken the first step, and we are fully supportive of that, except I think in the final analysis, on 407 it sort of backed down a little and did the funding itself. If they had continued with the thrust of private sector involvement in that process, no matter what administration, whether there's a change in administration or whether it's the incumbent government or whatever government, we'd have no problem with continuing that program.

Our concern as an industry right now is that a new administration may say: "This is really just an increase in deficit. Maybe we have to look at that and revisit that thing." It's really not that simple. It's a capital investment. A capital investment must be amortized over the life of that project.

**The Chair:** Just for the record, I want to correct something you said. When you spoke of the Auditor General, I believe you meant the Provincial Auditor.

**Mr Ryan:** The Provincial Auditor. I just read the Globe and Mail on the way down. I wasn't here, but I just read his comments.

**The Chair:** Just in case someone happens to flip through Hansard and see "Auditor General," I don't want them to think that person was here.

**Mr Ryan:** I see. I think he's totally out in left field, frankly. My two sons are chartered accountants and they work for that government.

**Mr Phillips:** Just so I'm clear on your advice, your advice is that we should spend roughly \$4 billion a year on capital each year, which is roughly what we've been spending?

**Mr Ryan:** I'm not saying that, Gerry, so much. All I'm saying is that I think what has happened—and it's a quantum leap; I really do believe this very strongly—is that this current administration has finally, as I mentioned earlier, differentiated between capital and operating expenses.

Whether your government comes into power in a couple of months or whatever, you're going to be faced with the situation and you will have to support the process, because I think it's a genuine commitment. I think it means something to everybody in this crowd.

All I'm concerned about, frankly—I mean, I'm at the end of my tether. I'm not trying to promote the roadbuilding industry in that sense, but I know that what has happened in the past year or so is so beneficial to our industry and to the economy in general. It's extraordinary, and I don't think anybody, any of you parties here, should berate that. You have to go along with that. In the final analysis, analysing all the input I get from all the European countries, they're all looking at that kind of—

**Mr Phillips:** I think you know from our meetings that we've been very supportive of the 407. I think that's a good idea; no problem.

**Mr Ryan:** Absolutely.

**Mr Phillips:** If I can paraphrase what your advice has been, you're saying the province should spend \$3.5 billion to \$4 billion a year in capital, because that's what it's been spending each year—

**Mr Ryan:** I would think so.

**Mr Phillips:** Let me finish—but only report the amortized portion of it as an expense. So we spend \$4 billion a year, every year, but we only show one twentieth the cost of that.

**Mr Ryan:** No, no. No, that's not quite what I'm saying. All I'm saying, as an accountant by profession, is that provincial governments and the federal governments are the only agencies that do not relate to the type of expenditures they make in the current year, every expenditure they make.

**Mr Phillips:** Business would show it as depreciation, I gather, you would say.

**Mr Ryan:** That's right. Normal business practice is obviously—

**Mr Phillips:** And what would you think the depreciation is per year? I'm just trying to get at that. Is it \$4 billion a year?

**Mr Ryan:** Well, no, I wouldn't really make a commitment on the type of—

**Mr Phillips:** Roughly. We need your advice on how we should be accounting for the expenses, that's all.

**Mr Ryan:** Let me answer it in a different way. It's not the dollars so much; it's just a method of accounting for them. I would suggest, as I mention in my presentation, that the concern we have as an industry is the fact that some of the current commitments, whether they're capital or operating, are made to capital.

Going back to 407, specifically 407: Our industry had a real problem with the 407 in the sense that the initial concept of 407 was private sector involvement directly.

**Mr Phillips:** That was ours too.

**Mr Ryan:** Private sector funding—everything was private sector. I tell you, if that commitment had been made by this administration, which it fell short of, we would have no problem with that, because the private sector would have been involved. The questions today would have been, how did the Ontario taxpayer accept—you know, do they think it's worthwhile to pay the tolls on the highway system when those revenues are going to reimburse the private sector? In every other country in the world, that's the process going on right now, and I think the provincial government today made a mistake in the sense that at the last minute it decided in its own wisdom that it would not go to private sector financing but would handle it publicly, just the cost structure.

**Mr Phillips:** I'd just say, if you've got other recommendations on good private-public sector partnerships, certainly we're interested in looking, because I don't think there's any doubt.

**Mr Ryan:** Let me just ramble on for a second, if I may. I always do anyway.

**The Chair:** Our time's running very short and the Conservative Party would still like to ask a question, Mr Ryan.

**Mr Ryan:** Oh, I'm sorry.

**Mr Carr:** It's on the same lines, because I agree with both you and Gerry that in all areas we need more private sector involvement. In fact, we're on the record that for things like day care and nursing homes there should be more private sector. You can continue with Gerry's, if you like. It's along the same lines.

What I see happening, though, and the difference between what's happening with this government and the new government, what your group would like to see, is that when the 407 is built, the contract would go out and the funding would be in terms of tolls.

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The government would set the criteria, put it all together and say to the private sector, "You bid on it now; the project will cost X billion dollars; we're going to pay for it over 20 years with tolls," and the government wouldn't fund it at all. It would be private sector with the tolls paying the total cost of it and the government for all intents and purposes getting out of funding any new roads. Is that what your group is requesting and is that how you see the future going?

**Mr Ryan:** Actually, what is happening with the 407 right now is that the government is building the 407, and the toll revenues—the point I was trying to make was that the initial concept of the 407 was that it would be a build, operate and transfer, which means in effect that the private sector builds it, operates it for a certain period of time, collects the revenues and then at the end of maybe 20 or 25 years, for whatever nominal amount, it reverts back to the government.

That never happened. What happened was that the provincial government decided, on the bidding process between these two consortia, that the cost of the funding was so exorbitant in terms of what the provincial government could get themselves in terms of funding that they would fund it themselves, and that distorted the whole process.

**Mr Carr:** One last quick one: If we do it like you want, do you feel you can do it cheaper than the way we're doing it now, the bottom-line cost?

**Mr Ryan:** "Cheaper" is a quantitative statement, but certainly that's the way to go. I would think so, over the life of the process, in the sense that business operates a little tighter to the vest.

Looking at what's currently happening in the rest of the world, there's no question that's the way to go. I don't care what administration comes in in the future: Any capital investment and infrastructure investment—new highways, new systems—Europe, Britain, France, Italy, everybody today is looking at it. The only way they can produce a new highway system, which is really, when you cut through all the crap about what the economy's going to generate—but the most important thing is to have access to markets. When you have access to markets, that's the most important investment you can make, and when you make that investment it has to be in the most economical way. Now governments have to step aside from the process because the electorate—well, there are no moneys available. The private sector must be involved in the process.

**The Chair:** Thank you very much, Mr Ryan, for making your presentation before the committee this morning.

#### ONTARIO PUBLIC SCHOOL BOARDS' ASSOCIATION

**The Chair:** The next presentation this morning is by the Ontario Public School Boards' Association. A number of people are going to come forward, according to my list, with respect to making this presentation. Please introduce yourselves for the purposes of the committee members and for Hansard; it would be appreciated.

**Mrs Donna Cansfield:** My name is Donna Cansfield and I'm the president of the Ontario Public School Boards' Association. With me today are Bob Dureno, superintendent of business; Sam MacKinley, superintendent of business; and Sharon Summers, vice-president of the Ontario Public School Boards' Association. We're pleased to be able to have an opportunity to speak to you about some of our concerns and obviously to help you in terms of your deliberations with some possible suggestions and opportunities for you to capitalize upon.

Without question, the political and economic uncer-



tainty that faces us all in the next few months when we have an election, and also with the recession not quite over—certainly as a trustee within the Etobicoke system and the Metropolitan system, I'm well aware of the issues around assessment base, which we will discuss. We're aware, as you are, of the constraints and restraints that are facing all of us in this province, and I think we also are aware of the concerns. We're not coming here looking for any magic wands or quick fixes; we actually have some solutions for you to consider.

We know that the economy and job creation are key public concerns, not only for our association but for the members of the Legislature as well. We also know that economic renewal is tied both to training and to education. What we are concerned about is that often there is a great deal of discussion about lifelong learning and the necessary attitude that this must continue, and yet the foundation skills, both in elementary and secondary schooling, that are required to reflect this often are not reflected in terms of walking the talk when it comes to putting education as a priority in this province. This is an absolute must. We have to start deciding how we value education and we also must put the dollars towards the education we value, or, you've got to stop using it in the inappropriate fashion that you are using it as your economic renewal.

School boards are facing increased demands in funding. Actually, our numbers have increased by 7% since 1990 and our dollars have decreased significantly. However, our mandates to meet these needs have not decreased; they have actually increased. These are important things for you to consider.

I know there's a great deal of discussion about our cost of education when you use comparative analysis around the world. However, you must at some point step aside and look at exactly what those costs reflect: It simply is not reading, writing and arithmetic any more; they involve a great deal of social services that are an integral part of why the school system continues to exist. If you believe those systems must be there, then you must fund them and you must cost them out appropriately. We will discuss more of that.

Currently, I can tell you that our psychosocial service support system across this province is greater in salary component than it is for the child welfare budget. Now, look at that number: That's \$346.9 million that are not educational dollars per se but are dollars that go to support the classroom and the teacher in the classroom. If you recognize that this is an integral part of what teaching is all about, then you have to say that those dollars belong there, and if they do belong there, then you're going to have to fund them.

We're asking you to look at the mandates you continually download on to the school boards, and I can give you a litany of those that have absolutely nothing to do with education: Let's try workers' health and safety, pay equity, and the costs that take the dollars out of the classroom.

Also, you must look at education as a key platform and a public policy priority. Again, that gets back to walking the talk. If you say that education is going to be an

integral part of where you're going for economic renewal and job education, make it the priority you say you're going to. You must deregulate education to facilitate school board innovation and restructuring. We've given you numerous examples and we will speak about that again today.

We have actual examples of where, if we didn't have the legislative impediments, we could go forward and do many more innovative and entrepreneurial things in our schools that in fact would help to reduce those costs and make for a better education system. You also must accurately cost out the education and separate the costing for the other services so that when you do your comparative analysis it's judged on fair numbers.

Then the bottom line is, you've got to stop downloading to the local tax base and then taking the high road and saying: "It's not my fault. It's their fault." I don't know about the rest of you, but quite frankly, I'm sick and tired of it. I'm tired of your lofty goals and then we have to implement them, and when they don't work out or there's not enough money or there have to be taxes, then we take the flak. No more: Enough is enough.

One of the other concerns we have expressed and will continue to express is the issue between "equity" and "equal." Look at the fact that there are 1.7 million students in this province, 1.3 million of those students in the public school system, 500,000 adults. Recognize that it costs dollars, so "equity" and "equal" are not the same thing when you start looking at the distribution of dollars. If you were to have the dollars follow the student, maybe that would be a different idea of what "equity" and "equal" would be all about.

We would also like to concur with Erik Peters, the Provincial Auditor, in terms of the issue around the separation of the capital, in particular, out of the school board financing and how it reflects on the provincial deficit. I'll ask Bob Dureno to speak to that.

**Mr Bob Dureno:** I have three areas I'd like to talk to you about regarding capital. The first one is the issue of deregulation. The current capital financing plan for school boards has basically wound up in a lot of administrative requirement and detail. It's to the point where the Ministry of Education can no longer handle that, and it has resulted in long delays in school boards getting approval to carry out the capital needs that require ministry approval.

We would like to see deregulation around the capital, and we think this will facilitate a more economical construction cost locally. There are a lot of provincial requirements that we believe are unnecessary that are presently contained in those regulations.

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The second area that we want to emphasize is in the area of additional capital and replacement schools. There is a lot of requirement across the province for additional capital in the area of additional schools because of the enrolment growth in certain areas, and the province needs to fund those properly. We understand that there are not a lot of dollars to go into this additional requirement. However, we believe that through deregulation and

through freedom under the Education Act we might be able to come up with innovative local processes for financing schools with the private sector. At the present time, boards are constrained from doing that because of the requirements of the Education Act.

Thirdly, we want to have you emphasize the requirement for repair and renovation to our existing infrastructure. There's a recent report that was issued last year called Canadian Schoolhouse in the Red, which outlined both on the federal and local Ontario basis the large requirement that's there that isn't being met to maintain our present infrastructure.

The ministry did announce last year that there was \$80 million set aside for 1996 for repair and renovation of schools. We have yet to hear that announcement be made officially as far as detail is concerned. It's very difficult for boards to plan on a three-year planning basis when we don't know really what to expect in a subsequent year. So we would like to see a specific plan outlined on that very soon so that we can get on with it; 1996 is not very far away.

Those are basically the comments that I had regarding the school capital.

**Mrs Cansfield:** Thank you, Bob. Sharon Summers will address some of the issues around education finance reform and our recommendations. We'd like you to notice that on the government side there is no action to date.

**Mrs Sharon Summers:** Needless to say, education finance reform is of great interest to us, and I'm sure it's of great interest to you also. We have been working on this for some period of time. In May 1994 we produced a document that consolidated our positions on education finance reform. We have worked towards sending out some ideas on how to restructure education so it could be more cost-effective. That was produced and distributed in April 1994. So this isn't something new; this is something we've been working on and trying to get the message out.

We need to cost out exactly how education dollars are being spent and develop a completely new education finance system. There needs to be less reliance on the property tax through increased provincial support to its share of education from existing provincial revenues. We need a new education grant based on an accurate costing of education and an accurate level of provincial support to meet clearly defined objectives, a new distribution formula based on individual school board demographics and need. It's difficult to separate out education finance reform from program reform. A current lack of definition of what is funded has resulted in a finance system where there is little relationship between grant levels and actual costs of delivering that education.

We need to develop a provincial health, social service, education network of supports for students. As we talked about earlier, there is approximately \$350 million in education grant dollars that is being used for health and support services for students. The education grant should not fund these necessary services. Education cannot take place in the classroom unless these services are available for the students.

We produced an education restructuring document and policy and legislative analysis, and we have a few copies of that which we can leave with you, although they, as I said before, were circulated in April 1994.

We have requested the province to proceed with legislative policy and grant change to facilitate school board restructuring in the following areas: cooperative services, networking, transportation, staff reorganization, alternative program delivery and school capital. There are 25 recommendations in this document, and to date no action has taken place on any of these.

We do thank the provincial government for helping us in producing a restructuring binder that has gone out to all boards, although that is not enough. We also need changes to legislation to help us initiate some significant changes in how we are able to operate our education system.

**Mrs Cansfield:** Mr Sam MacKinley has been involved with the Fair Tax Commission and education for many, many years and probably is known to most of you. I would like to ask Sam to make some comments around the issue of the assessment base, because it isn't simply a Metropolitan Toronto problem; it's a problem around the province that we need to address.

**Mr Sam MacKinley:** As Trustee Cansfield has said, one of our positions is to put your dollars into education. A major phenomenon that is now hitting education, however, is a significant reduction in the revenue base that we have. Our assessment base at the present time is approximately a little over \$5 billion, equalized across the province, upon which education is funded. It was fairly common not that long ago that you would actually see the assessment base growing 3%, 4%, 5%, 6%; not that long ago it was growing at 10% a year. Now it is not. It is actually decreasing at the present time in a number of boards, and as Trustee Cansfield said, this is not just a Metropolitan Toronto issue.

When you looked at 10% increases or 5% increases, it was fairly common then that the expenditure base increased by in excess of \$2 billion a year. When you look at the decrease we are now looking at, we are looking at a \$1.6-billion or \$1.5-billion decrease, and it is the swing that is very, very hard for education to fund. At the present time, with virtually no increases in the funding from the provincial government, boards of education are now faced with major increases in mill rates or major decreases in the level of service. The boards are in that very, very difficult position of trying to meet, of course, the needs of the students and at the same time meet the responsibilities that they have as trustees in the economy of this province.

Very briefly, what is causing the decrease? There are two major instances. One is simply businesses going out of business and the impact that has back then on the assessment base as the properties become vacant. The second is significant appeals of the assessment base, which is contributing remarkably to the decrease. Commenting on just one number for Metropolitan Toronto, for example, our revenue is expected to be down \$100 million in 1995. That is part of the reality that we are facing in education: to try to maintain the quality,



maintain the things that Trustee Cansfield indicated are being downgraded in many respects on education on a significantly reducing revenue base at the same time.

**Mrs Cansfield:** We would be pleased, if there are any questions, to try and respond.

**Mrs Elinor Caplan (Oriole):** I was interested in your representations around deregulation and I'd be interested if you could be a little more specific as to what you mean by deregulation. Are you talking about no regulation or specific changes to regulation?

**Mrs Cansfield:** Specific changes to regulation. We can give you some examples. Currently, municipalities have the pleasure of being able to have parkland donated, for example, by a developer. School boards do not have that pleasure. We cannot enter into any agreements with developers other than through the Development Charges Act. For example, we can't find another opportunity to maybe have a school built or a school donated or participate in some sort of a joint effort with the universities or colleges, so we'd need changes to the Education Act.

Another example would be around the provision of services: librarians, early childhood education for junior kindergarten provision, counsellors, those sorts of things in the school. So there are a variety of opportunities we identified and they are in the recommendations in this report. We went through and identified many areas where if we had opportunities, we could be a little more entrepreneurial, reduce our costs, yet it's the regulations themselves that prohibit this.

**Mrs Caplan:** I'd be interested in your view as to why the regulations are there. What was the rationale for restricting the boards?

**Mrs Cansfield:** I'm sure, like most things, just over the years one has been added to the other and that usually it's been some advocacy group or lobby group, probably the teachers in terms of teacher-librarians, this sort of thing, or you have to have only certified teachers for the provision of junior kindergarten. Certainly, that's not the position the school boards have. The other thing in that particular instance is that certificate early childhood education, and it's also a degree out of Ryerson, is relatively new in the last 10 to 15 years.

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**Mrs Caplan:** So some of it is just updating and some of it also is a rethinking of the flexibility that you allow the boards to have to meet some of the new challenges of decreases in assessment base.

**Mrs Cansfield:** The Education Act, if you've ever looked at it, is enormous. They haven't taken anything out, they just put it in.

**Mrs Caplan:** I appreciate that. I think the advice that you give us is interesting, particularly from the viewpoint of how you can stop just adding on to additional regulation and look at a rethinking of those kinds of complex pieces of legislation. I was also interested in your suggestions for changes in education finance. I'm convinced that there must be someone somewhere who understands the formula. It is the most complicated.

**Mrs Cansfield:** I agree with you. I've always said to Sam that I thought that somebody sat down with a bottle

of Scotch one night and worked this out, because it's probably the only thing that would make any sense, that at the end of the night they'd had far too much Scotch and the regulations were born.

**Mrs Caplan:** I believe if you're going to have accountability, you have to have that kind of transparency. If people are going to see that it's reasonable and fair, then you have to be able to explain it to someone.

**Mrs Cansfield:** I think also the time has come to value and respect education and the children. You know, we've been a whipping person for a long time. You've either got to get off the pot or whatever. Enough's enough; either you value education or you do not. The fact of the matter is that successive governments over the years have downgraded on to the educational system and we have been willing participants to accept catheterization, suction, counselling, suicide prevention, tragic events teams, workers' health and safety issues, health tax, the litany goes on and on and they're not reading, writing and arithmetic. But you need those things in order to provide the reading, writing and arithmetic. Value them or get rid of them.

**Mrs Caplan:** I know the education system has also changed. You're now dealing with a lot of adult students. It's not just a question of children. Can you give us any statistics that you might have about the percentage of adult students who are in the system province-wide?

**Mrs Cansfield:** Approximately 70% of the adults—it's in the brief—are in the public school system. It's 70%.

**Mrs Caplan:** You're not suggesting that 70% of all of the enrollees in the school system are adults?

**Mrs Cansfield:** No. We have 70% of all of the adults. There are 500,000 approximately in the public school system.

**Mrs Caplan:** I'm interested in what's the percentage of the total school population in elementary and secondary, not post-secondary.

**Mrs Cansfield:** It's 1.7 million.

**Mrs Caplan:** And what percentage of that is adults?

**Mrs Cansfield:** Those are just the children.

**Mrs Caplan:** And how many adults are there?

**Mrs Cansfield:** Five hundred thousand on top of that.

**Mrs Caplan:** So about 40% of the present student population—

**Mrs Cansfield:** Approximately.

**Mrs Caplan:** —in the public school system in the province are adults? Would that be fair?

**Mrs Cansfield:** There are 1.7 million children, 1.3 million in the public system. On top of that there are 500,000 adults. We have approximately 70% of those.

**Mrs Caplan:** I see. Thank you.

**Mrs Dianne Cunningham (London North):** Thank you very much, especially for the great work that you've done since 1991 with regard to some 17 publications on finance. I think it's probably been the busiest bunch of trustees in the province for many years.

My question has to do with recommendations that you

have made, for instance, "There has been no action on the rated capacity formula." That's the number of students in a classroom. No action on year-end. By the way, I have a private member's bill here that the minister agrees with and he's waiting for the royal commission. So we'll see what happens when the House comes back. It was approved unanimously by the House, by the way.

I'm also wondering if you would like to talk a little bit about pooling. So I'm giving you some things to talk about here.

Fourthly, you didn't say anything about the fact that when you get your capital funding, you have to go borrow money for three years before you get any money from the government. So I really commend you for not asking for more money but for asking for more efficient ways of getting the money and distributing it. I really commend you, because you're obviously aware that we're not in the business of spending more money these days.

I've asked you three questions: capital grant program with regard to rated capacity, if you could speak to that; the year-end, because you mention it in a different way here and I'm wondering if you still want what we suggested; certainly the fact that you have to borrow money before you get the whole program. I'd appreciate your comments. I'll give you an opportunity and it will help me along for the future.

**Mrs Cansfield:** The rated capacity: That's one of the opportunities where we could be a little entrepreneurial. Currently, you build to capacity and then if your school increases, you're out of luck, because then you have to put on portables or whatever.

**Mrs Cunningham:** Before it's open.

**Mrs Cansfield:** Before it's open. If we could enter into agreements where we could build beyond capacity, rent out the space until we need it, again, you see, it's a little more efficient way of doing business. But currently, we're prohibited by law from doing that. We just cannot do that. That would be one example.

The issue around the pooling has been—that's a Band-Aid. As Sandy Ransom out in Peel said, it's a Band-Aid on a great big open sore. That isn't solving the problem of education finance reform. The education system is broken in terms of finance reform and needs to be addressed thoroughly, comprehensively, efficiently and effectively, not with Band-Aids. Band-Aids don't work any more. We all know we have a serious problem with our deficit. We all know we want to be able to do our business in a new way for restructuring.

What we're saying is, we're prohibited in certain ways by law from doing that and we'd like to find more effective ways. We have asked consistently to work with the minister, to sit down and help work out a new finance formula that would be more efficient for the system.

The 20-21 is what I'm sure you're speaking to because that's currently very punitive in my estimation. Currently, by law, the ministry says that you can have 25 children in senior kindergarten but for some magic reason when they get older, you can only have 20 in grade 1. It doesn't make any sense. However, it's a regulation, but not by law, that is attached to dollars. If you go over

your rated amount in the 20-21, they take away your money, so it's very simple, very punitive. The minister said he will not touch it. It doesn't make any sense to me. We have 25 in senior kindergarten but only 20 in grade 1 or grade 2. If you were to just have one more in the PTR, one more alone would make an extraordinary difference in the cost of education across this province. There's a good example.

**Mrs Cunningham:** Could I ask you what you're expecting from this committee, and I ask it in this regard: The royal commission did not have a mandate to be reporting on finance, but it did. So this committee, I'm sure, is looking for some direction, especially if it doesn't cost any money, to go back to the minister with specific recommendations for change. Your brief is quite inclusive, but I wondered if you would comment for all of us who are going to have to put the recommendations together with regard to how your position may have changed if you in fact know now that this whole issue of education financing has been opened up by the royal commission.

We know we need Education Act change, but the pooling issue is a very big one. It's just an opportunity to let people who aren't often part of education, which is so complicated these days, know a little bit more so they can put it in the report, especially with regard to the whole issue of pooling. It's something we should, I think, be remarking on in this committee.

**Mrs Cansfield:** Robbing Peter to pay Paul isn't the answer. To take from one child to give to the other and call it equity is not the answer. You have to look at the actual costing of what education is all about and then determine if you're prepared to pay those dollars for those costs. If you want to look at the health services that are currently provided within the school system and the social services that are provided and ask those ministries to assume those costs, there's a good start.

We've been working with the triministry group but there's a great deal of turf protection in terms of, "This is mine and I'm not going to share it," but if we actually costed out the provisions just in those three ministries and then put the dollars from the other ministries into education, you'd find your education bill would go down big time. There's one of the things you can do. In the triministry issues you must deal with the issue that turf protection can't remain.

I think the other is that we've been saying for a long time that all children should have access regardless. There's no question that we've all said that, but it has to be based on the needs of those children. Currently, we do serve the greatest percentage; 75% of all special education is in the public school system.

The reason for that isn't because the separate school system didn't have the opportunity at the same tax base we did; they do. The fact is they've chosen not to and we get their children. As a matter of fact, they counsel them over to the public school system and there are letters that have been made public to that. So you again have to recognize the kind of cost the public system bears. I can't see where this is rocket science. I really can't. It's not that difficult.



**Mrs Cunningham:** We wouldn't want to call it common sense though, would we?

**Mr Kimble Sutherland (Oxford):** Oh, please.

**Mrs Cansfield:** I was careful.

**The Chair:** Sorry, we're going to have to go on to Mr Sutherland.

**Mr Sutherland:** Given the fact that many of these funding systems have been in place for 15, 20 years, we can go back to find out where we lost some of the common sense.

I think some of the points you have made are certainly well taken and everybody acknowledges the problem with education finance issues. I think your comments about health and social services and whether the school system should have to pay for them—certainly having them in the school is beneficial. Of the parts of the royal commission report that I've gone through, I think you had a great deal of support from the commission in what it's saying about that, that it's important to have them in the schools.

You've also acknowledged about legislative changes that you feel restrict some of your activities. But I also know that, for example, there are new endeavours being undertaken. Both local school boards, the public and the separate, have entered into a consortium for purchasing with municipalities in the local area. Have the school boards—and I know you're only speaking for the public school boards—fully utilized all the options available, such as this consortium for purchasing outside legislative restrictions? Have they fully utilized all those options to date?

**Mrs Cansfield:** Some of the legislative changes that we require are necessary for some of those cooperative services, but I'm going to be very blunt with you. The fact remains that the grant distribution for transportation is such that the separate school receives more dollars per grant than the public school. So you tell me where the heck the incentive is for them to share. It's a disincentive because then their money is taken away from them, and if it's unfettered dollars and they can do what they please with them, where's the incentive to share transportation?

The other is, and this will probably sound a little disrespectful, but the school boards are on board with the consortiums. What they can't figure out is which union's going to take place, and we have no support from the government in terms of helping us through this quagmire of difficulty because we've got different school boards with different unions. So we're together, but now we have the unions fighting on which union takes precedence.

**Mr Sutherland:** I'm not sure. The one I'm familiar with in my local area is school boards and municipalities strictly on the issue of purchasing. I guess my question to you would be, have all school boards entered into it solely on those issues that aren't limited by union issues or limited by legislation into these areas that would help reduce costs as well?

**Mrs Cansfield:** Some have. The Lakehead board, for example, I think has saved \$2.5 million and it's in the purchasing with separate, public, municipality, hospitals. They've done a superb job. Niagara South Board of

Education is another good example of a multiconsortium where they've gone into banking. That's that restructuring binder that we wanted to get out right away because everybody's in budget.

That's a good beginning. We're saying, build on that good beginning, give us some flexibility around some changes in the Education Act and watch us take off. Currently we have schools filled with computers that the kids need but, boy, computers work best if they work all the time. We could run career schools in our schools in our downtime and make money to pay for those computers, but we're prohibited by law from making money. Think about it. I can give you all sorts of great ideas that we could do.

**Mr Sutherland:** I think there are all kinds of options there, in your option about renting out the school property, but I'm sure the third party would be here saying that you're interfering with the private sector if you did that because—

**Mrs Cunningham:** No. That's been our position since 1988, on the record.

**Mrs Cansfield:** I don't think so.

**Mr Sutherland:** —there's extra commercial space around to lease.

**Mrs Cansfield:** Actually, if I may, as a matter of fact—

**Mr Carr:** Whoever does it the best and cheapest is competition.

**The Chair:** Order. One final comment.

**Mrs Cansfield:** I did specifically request the minister for that particular, and it was not this minister but the previous minister who refused us, and in fairness, the other individuals involved said they thought it was a good idea.

**The Chair:** I'd like to thank the Ontario Public School Boards' Association for making its presentation before the committee this morning.

Just a note of business for the committee members: We have a document here that represents our 3:45 pm presentation this afternoon, if anyone would like to pick it up. I just wanted to bring that to your attention.

*The committee recessed from 1205 to 1407.*

CANADIAN MENTAL HEALTH ASSOCIATION,  
ONTARIO DIVISION

**The Chair:** Our first presentation this afternoon is by the Canadian Mental Health Association, Ontario division. Glenn Thompson is executive director. Kindly identify yourselves for the committee members so we will know, and so Hansard will know who you are.

**Mr Glenn Thompson:** Nice to be here. Carol Roup is senior director of policy, research and branch services in our organization. Ruth Stoddart is executive officer in the organization, and because she's a lawyer, we rely on her for all sorts of services of that sort. Lisa McDonald is one of our branch services consultant staff, specializing at the moment in the area of the safety net reform, the federal material that you see referred to in this document. You may well have an interest in our comments in that area as well.

I'd just say for those of you who may not have been present when this organization presented before that ours is a very old organization in Canada, about 75 or 76 years old now, and in Ontario we've been a chartered organization since 1952. We have well over 3,000 volunteers in our organization. We see that as our main strength in terms of our anchor in the community for the opinions we bring to you: We're not simply a staff-driven organization but very much a volunteer-driven one. That anchorage is out there in 36 branches across the province where we have a variety of funding, as you can see in the first part of the document, from provincial government grants, local United Ways and a wide variety of, and increasing, fund-raising activities of our own.

I'll say no more about introductory material and ask Carol Roup to proceed right into the content of the document. We'll try not, under any circumstance, to take more than 15 minutes talking at you.

**Ms Carol Roup:** I'm going to try to highlight very quickly some of the issues we've got in the first part of our paper and then I'll probably move straight into this document which was recently released by the Ministry of Health; it has some information in it that we've never before had in the mental health field, so it's quite important.

Just to highlight some of what's in there, figures we've known for a long time that this document now confirms, one in five people in Ontario between the ages of 15 and 64 suffers from at least one form of mental disorder. Approximately 118,000 Ontarians suffer from severe mental illness.

The survey also tells us that mental disorders affect 18% of men and 19% of women in Ontario and that there's a strong relationship between disadvantaged living situations, such as unemployment, and mental disorders. I don't think these are things we didn't know before, because the literature has said this for at least decades, but having a document that has surveyed the population is wonderful support for the kinds of figures we've been presenting to committees like this.

In Ontario, we're told that 1.8 million days of productivity at work, home and school were lost per month by people with mental disorders, and this is nearly twice the number of days by an equally sized group of the so-called healthy population. Nearly a million informal caregivers, family members and friends, provide care to, among others, people with mental illness, and of course mental disorders disrupt family life and may have adverse effects on children.

These statistics speak for themselves, and we know mental illness is a serious problem in Ontario and affects large numbers of people and their families. We expect these costs to increase and to grow.

In 1992, the Minister of Health at the time, Frances Lankin, made mental health a priority strategic direction, and that was supported by the government. A couple of years later, in 1993, the Ministry of Health released Putting People First, which described the policy of the government around mental health reform and described what it intended to do about the statistics I've just read off to you. Now we're in a phase where mental health reform is being implemented to address the changes

needed both in the way services are provided and to use limited resources more efficiently.

Undoubtedly, the mental health reform initiative was also a response to the following budget numbers in this province, all of which I'm sure this committee is knowledgeable about: In Ontario we spend \$17 billion on health care—that's a 1992-93 figure—more than 32% of the total provincial budget. Also in 1992-93, Ontario spent more than \$1.3 billion on mental health services, which is only 7.5% of the total provincial health care budget. In view of the fact that mental health is a strategic priority of the government, somehow 7.5 seems like a very small number.

Currently, as this 1992-93 figure indicates, and I don't think this has changed too much, approximately 80% of the mental health budget, excluding OHIP, was spent on institutional care and 20% on community services. One of the essential components of the government's mental health reform initiative is that these figures will be more than reversed, with 60% being spent on community services and 40% on institutional care by the year 2003.

These statistics obviously indicate the disparity between the total cost of mental health care in Ontario and the funding that's dedicated to community-based mental health care. We know about serious gaps in service. We know about waiting lists for community mental health services across Ontario. A snapshot survey which was released by the Ministry of Health in 1992 told us that 34,000 active registered clients were being served by community mental health programs; over 50% of housing, social rehabilitation, vocational and case management programs had waiting lists of three months or more; and, most importantly, 49% of the programs had a majority of clients who were comparable with populations of the provincial psychiatric hospitals.

I'm sure you can anticipate what our concerns are going to be after hearing those numbers, and we feel this is probably one of the most important groups to hear the numbers and then to hear our concerns. Obviously our overriding concern in mental health reform at present is funding. Our board more than recognizes the urgency of the provincial government's need to reduce the deficit, but we believe that the most vulnerable people in this society, including the seriously mentally ill, must not be affected by a reduction in services.

Approximately \$20 million has been cut from provincial psychiatric budgets in the past year. Alarming, these funds were intended to be transferred to community-based mental health services but instead were put forward to reduce the deficit.

More recently, \$20 million was announced by the Minister of Health for the purpose of building up community services, and this was met with extreme excitement and was very welcome. However, \$20 million is really a small step in the right direction, and we need to be cautious that it's dispersed and implemented according to the ministry's guidelines.

We are extremely concerned that further cutbacks within the hospitals sector will cause far greater numbers of people to be in the community and be needing services. In the last two presentations to this committee on



the provincial budget we've emphasized the need for transitional funding which would ensure that community services are in place before further cuts to hospitals. We certainly don't want to see a repeat of the deinstitutionalization crisis of 25 years ago.

Clearly, hospital care will be needed and should continue and it'll be required as re-entry into the community is accomplished, but we must expect that the process of establishing services in the community will be difficult and expensive, especially in the short term when transitional funding will be required to do this.

In a time of fiscal restraint, it'll be extremely important for the Ontario government ministries to work together and cooperatively to prevent unnecessary duplications and gaps in service. One example I'd like to highlight is one we highlighted in our presentation to the legislative committee on long-term care.

We believe that those with a psychiatric disability are not specifically mentioned in the description of those who will be served by the long-term-care services, and as was stated in our submission to the legislative committee, CMHA, Ontario division, believes that all individuals who require long-term care and support services in order to remain healthy and able to live in the community should be eligible for those services regardless of the nature of their disability. The Long-Term Care Act identifies seniors and people with a physical disability in particular.

I think we need to ensure a rapid shift of resources so that an increased reliance upon care provided within communities where people live can be in place. We also need to ensure that adequate public education occurs in order that our understanding of mental illness has the mystery and mystique and fear removed from it. I think those are the two most important things we'd like this committee to hear.

**Ms Ruth Stoddart:** I'd just like to talk a bit about the upcoming federal budget and some of the proposed federal social assistance reforms and their effect on people with mental illnesses.

We're well aware that the federal government is likely to decrease transfer payments to the provinces in the upcoming budget, and the reason stated for this has been to reduce the federal deficit. One of the ways in which transfer payments will be cut is to the Canada assistance plan, and the stated goal is to reduce payments to the Canada assistance plan to 1993-94 levels within the next two years. This is going to have a very significant effect in Ontario because Canada assistance plan payments have already been cut to this province, and we feel that any further cuts to the plan will make it very difficult for people to access both financial and human services they may require. These services are often required just to meet people's most basic needs.

To give you some numbers, a large number of people with serious mental health problems rely on social assistance as their sole means of financial support. For example, in Ontario 25% of the 116,700 people who receive family benefits allowance due to a disability have a psychiatric disability. People with psychiatric disabilities comprise the largest number of persons of all

disability groups receiving family benefits allowance. Because of the large numbers of people with psychiatric disabilities receiving FBA, any changes to provincial or federal social assistance plans will affect a very significant number of these people.

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With respect to the Canada assistance plan, the CMHA, Ontario division, agrees that the plan itself is outdated and has in fact created disincentives to work for many people, including people with mental health problems. We believe that with adequate supports most people with mental health problems do want to work, and reducing supports, either financial or other, for these people is shortsighted in that they will be unable to work and more likely to remain on assistance.

Within the province of Ontario, the CMHA, Ontario division, has commended programs such as JobLink Ontario, which is funded through the Ministry of Community and Social Services, and Jobs Ontario Training, through the Ministry of Education and Training. However, we would urge that close attention be paid to the development of these programs, because past experience with programs such as these has shown that in the initial stages of program development, if people with mental health problems are excluded, their needs are often not met by the programs. This means that people with mental health problems will not receive the training and education they need in order to maintain jobs.

With the Canada assistance plan, one of the proposed reforms in the federal social assistance reform was block funding to the provinces, whereby the federal government would transfer a set amount of money to each province with which the province could do as it wished within a set of federal so-called principles. We would urge, first of all, that national standards be set for the use of any block transfer payments to provinces so that there is a consistent set of standards throughout the country. We would also not like to see assistance being based solely on an area where people live, but rather on their needs.

We'd also suggest that priority be given, as was suggested in the federal social assistance paper, to improving access to things such as disability-related supports and services, and also providing improved child care and income support to low-income families, because supports such as these could reduce reliance on both federal and provincial social assistance programs.

Federal social assistance reform also proposes changes to the unemployment insurance program. One of the main concerns of CMHA, Ontario division, about the proposed changes to unemployment insurance is the so-called two-tiered system of unemployment insurance which has been proposed. Under this system, there would be reduced unemployment insurance benefits for people who would be called frequent claimants, those being people who had had more than a certain number of claims within a certain number of years. We would caution against this approach being taken because it could unfairly disadvantage people with any kind of psychiatric disabilities.

People with psychiatric disabilities often have illnesses which are cyclical. They'll have periods of wellness followed by periods of illness over a long period of time.

These people may be able to work on a part-time or temporary basis but may also have periods of time when they are unable to work and could—and often do—end up as what would be termed frequent unemployment insurance claimants. If people with mental health problems are to have the best chance possible of returning to work and staying in the workplace, they should be able to obtain full unemployment insurance benefits.

The final concern with respect to unemployment insurance would be the likely impact of overall cuts to both unemployment insurance and the social assistance system. If the federal government does cut social assistance programs or social assistance payments to the provinces, and the province follows suit with cuts to provincial programs, this would likely result in more individuals relying on the social assistance system, particularly with the current lack of jobs, and would also create a downward pressure on those who have the fewest resources, who are often people with mental health problems.

We've attached to our brief a copy of the document we presented to the federal committee on the federal social assistance reforms, if you'd like to look at it.

The other thing I'd like to talk about is the four new pieces of provincial legislation, the Advocacy Act, the Consent to Treatment Act, the Substitute Decisions Act and the Consent and Capacity Statute Law Amendment Act. These four pieces of legislation have been in the process for quite some time. Proclamation was recently delayed again until April of this year.

Our agency has been involved in both advocating for and supporting these pieces of legislation through three provincial governments. We believe that all four pieces of legislation will act to help support the rights of the most disadvantaged members of our society. We do realize, however, that implementation, particularly of the Advocacy Act and Substitute Decisions Act, is going to be a very expensive and very lengthy process.

For example, advocates are just beginning to be trained under the Advocacy Act. Capacity assessors are being trained, I believe beginning this week, under the Substitute Decisions Act and will have to continue to be trained probably for a fairly long period of time. We would urge the government not to decrease any funding to the three ministries responsible for these acts so that full implementation of all pieces of legislation can occur.

**Mr Thompson:** You see the recommendations that attempt at least to wrap up what we've said on pages 8 and 9. I think the important things there are that we see the need for an appropriate kind of spectrum of services, and certainly those including housing and training and employment, supported by very solid volunteer systems for a mental health system to work appropriately. A lot of that better-working system will occur we think if early childhood development is attended to, and perhaps some of the announcements made recently in that area will be helpful indeed.

It's a tall order for governments across Canada to try to ensure that the deficit is reduced. At the rate I heard the other day that it's going up, at \$85,000 a minute was the figure quoted, we all need to worry about it dramati-

cally. Nevertheless we think that there's quite an opportunity to shift those expenditures along the spectrum and to make the spectrum more complete and more appropriate for the seriously mentally ill particularly and certainly to affect workplaces in a dramatic kind of way for the better in terms of productivity, probably one of the most unattended-to areas in the workplace. I'll wrap up there.

**Mr David Johnson:** Thank you for your deputation. Certainly everyone involved in the mental health field in the province of Ontario deserves to be congratulated. The statistics that you have indicated here this afternoon about the number of people involved and the need certainly portrays an immense need in the province of Ontario and one that is not going to be easily satisfied but one that deserves our full attention.

One hardly knows where to start in three minutes. I noticed partway through your deputation, on page 5, you indicated, "We need to ensure a rapid shift"—I'm talking about halfway down the page on page 5—"of resources so that there is an increased reliance upon care provided within the communities where people live" and "we also need to ensure...adequate public education." Maybe you could just tell me a little bit more about the rapid shift of resources that you see that's necessary to provide that support within the community.

**Ms Roup:** I think that over the last couple of years the downsizing of psychiatric hospitals has begun, and I think our disappointment was that as they're being downsized, instead of those funds being put into communities to build them up, they've been used to reduce the deficit. I guess when we say "rapid," certainly as fast as psychiatric hospitals get downsized and beds are reduced, at least that rapidly we'd like to see community programs be developed.

I think we'd actually like to see it a bit more rapid in that we keep recommending transitional funds, because I think if we only rely on the extent to which psychiatric hospital beds can be reduced, then what's needed in the community is not going to catch up. We feel that there is an injection of new money that is absolutely necessary to build up community services prior to hospital downsizing and then, as hospitals get downsized, keep working at that restoring of the balance.

1430

**Mr David Johnson:** Maybe just in my last minute or so I'm going to shift to another topic. You were talking about the Advocacy Act and the Substitute Decisions Act and you indicated that you realized there was considerable cost in terms of implementing those two acts with regard to the advocates and whatever the name of the person for the Substitute Decisions Act; I forget. But at any rate, do you have any ballpark figure? I've really been unable to get a cost myself. What is your understanding of the cost associated with those acts?

**Ms Stoddart:** Frankly, I couldn't tell you as far as the actual training. It's not merely training of assessors and advocates.

**Mr David Johnson:** Assessors.

**Ms Roup:** It's things like public education within the hospital system on both consent and substitute decision-



making, a lot of various other things. What's going to be the public guardian and trustee's office? Under the Ministry of the Attorney General there's been a complete reorganization of what was the public guardian's office.

**Mr David Johnson:** In other words, it's big.

**Mr Sutherland:** I have one quick question, just a point of clarification, and that is on your statement on page 1, "In Ontario, about 1,828,200 days of productivity at work, home or school were lost per month by people with mental disorders."

I just wanted to get a clarification. Probably I should know this, but how are you defining "mental disorders"? Would that include people with addictions such as drug addiction, alcohol addiction, or is this totally separate then from that?

**Ms Roup:** That figure was pulled from the survey—

**Mr Sutherland:** Okay. I'll follow up in the survey then.

**Ms Roup:** —and the survey describes the definition.

**Mr Sutherland:** Thanks.

**Mrs Haslam:** My comment is about the additional thing that you gave us, which was the appendix submission to the House of Commons committee on human resources development. I found some very interesting figures in that and I wondered if you—because you gave suggestions.

You said to the federal people looking at a budget, "Here are some current tax expenditures that we feel you could cut back on," that was page 12 in the Ottawa brief, and you list the millions of dollars, the corporate tax expenditures, personal tax expenditures and so on and so forth, as a way of enlightening them to the amount of money that was available to them within their own budget.

In this submission to this committee, there were no suggestions. Basically you're saying, "We are representing socially disadvantaged people." You've given us facts and figures about mental health, talked about some of the restructuring and some of the new programs that the government's putting in place and hoping that they stay, but basically you're saying, "Don't cut us, don't cut back any more on this particular issue." I wondered if you had any suggestions, like you did in Ottawa, as to where some of the additional finances could come from.

**Mr Thompson:** For the seriously mentally ill, we're certainly saying, "Don't cut that area," for sure. But the seriously mentally ill in the health system generally are a fairly small number and, as you heard earlier in the figures, 7.5% of the health budget—in our view, that's not the part of the budget to go after. In our view, there are many areas, probably within health and elsewhere in the government as much as anything, I would say with my background, where better integrated and coordinated services and certainly a reduction of duplication between levels of government would play out very well for the taxpayer.

**Mrs Haslam:** So basically what we're also saying, though, to the Treasurer is, "Be cognizant of the health care budget," but it is the Health minister who finds priorities and allocations within her budget and not to

underestimate or take from the smallest in the largest ministry.

**Mr Thompson:** I think what has happened in the last few years is a dramatic change in the juggernaut of the health organizations of the province in terms of increase in spending. Just slowing that aircraft carrier down has been quite dramatic and that's good. I think one can do more of that and do much more community-based care, that for many people is a tremendous economy over care in the hospital.

**Mrs Caplan:** I was going to ask you to identify some areas where you thought the shift could be made, so I'll leave that with you as a thought. But the other one really is on the implementation of the three pieces of legislation, which I have some very serious concerns about because what I see is the development of a huge bureaucracy at enormous cost, at the expense of service.

Unless those issues are addressed, my own view on the models that have been identified, particularly for advocacy, assessors, rights advisers and all of that, is that the population may not get the services it requires simply because clearly there are no additional and new resources out there, given the deficit and debt situation the province is facing.

No one clearly has a reasonable expectation that there are pots or piles of new money or money trees out there that are going to be identified, so it's finding it in one place and moving it to another to make sure that people get the care and services they need. I thought I'd give you a chance to comment on that, since you know of my concern for mental health services in the province. I agree with the comments about the need for greater coordination.

**Ms Roup:** From the start of those pieces of legislation we've been very concerned about building up a gigantic bureaucracy. I think when we presented to the legislative committee on advocacy in particular, we cautioned about that and we cautioned about the array of individuals who would be needed 24 hours a day to see that this happens.

I think we've continued to support it because we believe that the most vulnerable members of our population need that kind of support. We keep reminding ourselves how it came about. It came about through some horrendous abuses in the system and there seemed to be no other way to protect people like the Joe Kendalls, a long coroner's inquest that led finally to the Advocacy Act.

We share those concerns but we are still supporting that legislation because we believe that it is the only way that the most vulnerable members of the population can be protected, and we're just hoping that at the end of the day they will be the people who are protected. Sometimes, with all the best intentions in the world, the legislation ends up by missing the very people it was intended to serve in the first place. We're watching that very carefully, because that legislation was intended to serve the most vulnerable people, and not crowds of other people. So we share it.

**The Chair:** I'd like to thank the Canadian Mental Health Association, Ontario division, for making its presentation before the committee this afternoon.

## CONFERENCE BOARD OF CANADA

**The Chair:** The next presentation is by the Conference Board of Canada: Dr Jim Frank, vice-president and chief economist, Paul Darby, director, forecasting and analysis, and Doug Nevison, senior research associate.

**Dr Jim Frank:** We are pleased to join you again this year. We've been making presentations to this committee for a number of years now. I hope that you're not looking back and checking our forecasts, at least at the first decimal point.

**Mr Jim Wiseman (Durham West):** I brought my notes from last year.

**Dr Frank:** Yes, I thought somebody might be likely to do that.

What I have done here for you today is provided several pieces. One is a piece that has a cover on it that looks like this and it's got copies of some graphs and slides in it. There's another piece there that is a viewpoint, I believe, entitled "Stocks Matter." Yes, good. And what's the third piece?

**Mr David Johnson:** "Index of Consumer Attitudes."

**Dr Frank:** The consumer attitude survey, okay.

**Mr David Johnson:** And then "Canadian Outlook."

**Mr Phillips:** "The Harder They Land." I have that.

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**Dr Frank:** Yes, good. Okay? So we brought a lot of material for you. What I'd like to try to do here is talk to a couple of the major issues that face Canada in terms of economics for approximately seven or eight minutes—I appreciate this is going to take you through a lot of stuff pretty fast—and then I'd like my colleague Paul to talk about the Ontario scene specifically for another seven or eight minutes. Then we'll leave the balance and we can talk about whatever issues you people want to raise.

If you'd look in that first handout that starts with forecast highlights, just quickly, as you look at Canada now, we will have two years of expansion. In other words, we've passed the peak that we were at before the recession started; we've got two years of expansion. There's no reason that we shouldn't get another two years out of that. The important thing here is that trade has been an extraordinarily important part of this performance and we think that will continue in the coming year.

There are a couple of key things that you need to know about the outlook, and I'm going to concentrate on the government issue and then, of course, political stability; I think you can all read between the lines on that one. But the first one has to do with the US situation. Frankly, they're doing too well. We think there's going to be a situation emerging in 1996 that will see the US economy growing still too quickly to suit the Federal Reserve board, leading to a fairly strong increase in interest rates through the year and staying at fairly high levels as we have now, and leading us perilously close to recession in the first part of 1997.

The important thing here is that this is a business cycle that is induced by high interest rates and it's going to feed through into Canada. So the growth rate that we have over the next two years at about  $3\frac{1}{8}\%$  or  $3\frac{1}{2}\%$  or so

drops to 2% in 1997, and that's really important to understand. So we have what we would call a quite serious slowdown coming within the next couple of years.

Now, you can see in the bottom slide interest rates. The key thing here is, how wide have we kept the spreads and is it wide enough to protect the currency as we move through the next six to nine months dealing with Quebec and the fiscal problems of federal and provincial governments? It's not as clear as I'd like it there, but it's essentially saying that there's a spread of about 120 or so basis points, or just a little over one percentage point, through the balance of the next year, year and a half, and we think that's strong enough to hold the currency. As you know, now on 90-day T-bills the spread is just a little over two percentage points, so it's quite a bit wider than what we are forecasting.

If you look at the second page, you'll see two slides there that show the impact of the referendum in 1980 on interest rate spreads. You can see in 1980 there that the spreads jumped about almost two percentage points from one quarter. You'll see in the next slide that the Charlottetown experience was somewhat similar, not quite as large. So the key thing here is that in previous experiences with referendums we have experienced sharp bumps in interest rates. We have not got a sharp jump in interest rates in this forecast. We've kept the rate relatively high compared to the US, thinking that we've not got just a referendum before us, we have a fiscal policy issue of consequence, so that on balance we're working with that one or one and a quarter percentage point spread which we're hoping will be adequate to keep the currency from falling too sharply.

Let me just turn you over the page to confidence. The bottom slide shows Ontario and Quebec and the top slide Canada. Confidence in the fourth quarter moved up a little bit. In Ontario it moved up about four index points. Ontario has experienced now six quarters in a row of steady increases in confidence as measured by the Conference Board. This is a pretty strong record and it's very encouraging, as far as we're concerned at least, for the near-term outlook. Paul will talk a little bit about that opposite Ontario. The only place where confidence has slipped is in the Atlantic region and in British Columbia, but for Canada as a whole and Ontario we're doing quite well.

Flip over to the middle slide under the unemployment rate for Canada. You can see that it's still running well over 8% as far as we're concerned—quite a big difference across the country—but the middle slide's important. The bottom line there, the one that's at about zero, is collective bargaining results in the public sector in Canada. We've had two quarters in a row where they're slightly less than zero, minus 0.1%, and this is a historical, very unusual event. It's never happened before in this time series where the public sector has been tracking at zero or slightly less than that. In our view this is going to continue this year and next year. All governments are in such severe restraint, there will be no choice.

The private sector, alternatively, is experiencing a pickup in wage increases in the unionized sector and in the non-unionized sector. At the Conference Board, we



do surveys of the non-union people and we're seeing increases between 2% and 3%. The long and the short of it is that we're getting reasonably decent employment growth this year. We're forecasting an increase of 335,000 year over year compared to 250,000 last year. It's a bit of an improvement. So this wage gain that's coming in the private sector is one of the key drivers of the economy. There's no purchasing power gain coming in the public sector, and that's going to be true, of course, across the country.

Just to take you over to the top of the next page, "Index of Business Confidence," quickly there, we've had just an incredibly good string of increases in our measure of business confidence. We're at a record high almost, the highest since 1979, I believe. The index is at 196. You can see how much it's increased over the last while. The business community feels very bullish, very optimistic. Profitability is up and high, and we think it's going to continue. The low dollar helps, as far as traders are concerned.

Let me just shift. I want to talk about two points before I turn over to Paul. One has to do with the fiscal assumptions that we have in our outlook, that are embedded in this outlook, and then, secondly, a bit on the trade and the currency.

If you look at the slide "Fiscal Record of Governments," you will see that what we've done here is amalgamated all the provinces together and shown the federal government separately, and the total then is the bottom line there. We believe it's important to look at all levels together simply because what Ontario does affects the federal government and what the federal government does affects Ontario. It's very clear and it's not possible to segment the two at all in any meaningful fiscal policy sense.

The bottom line then, you will see, shows that last fiscal year we added \$62.1 billion to the national debt and this year we'll add another \$58 billion and change. If you average the number over four years, you'll see that it's about \$61 billion. Each year we add about that amount to the national debt, and it's not sustainable. The next slide there shows what has happened. The debt-to-GDP ratio has hit 100%, so we're now in the 100% club along with the Italians among the G-7 countries.

One thing I'd like to note in that middle slide is that little period in the mid-1980s where the ratio between debt to GDP was pretty well flat, roughly at 65% or so. The important point here, ladies and gentlemen, is that even during a period of strong economic performance that ratio did not decline. That's just a matter of history and record.

There are some lessons we think that we've learned from this period of the last decade or so, and the most important one is the bottom bullet there, "Incrementalism will not work." In the viewpoint that I've given you here, I've gone through and explained the logic of what we've done in our forecast. Any of you who are really interested in that stuff can follow that through.

The next slide at the top of the page, "Real Government Spending": Those three bars below the line again are a record. The last time we had negative growth or

decline was in 1959, and we had it only one year.

What did the board do in its forecast? What we said is that we believe that the federal government would move heaven and earth this time around to meet its target of 3% in 1996-97. We prepared our forecast, did all the work and asked ourselves, "Will they meet this target?" The answer was no, that more changes needed to be done. We chose to make those changes on the spending side, not because we think there will be no taxes, but because we believe the vast majority will be done on the spending side. There's too much resistance in Canada to tax increases.

So what did we do? We took half a billion out of transfers to provinces this year and another \$2.1 billion in federal spending on goods and services, for a total cut of \$2.6 billion on a base of just over \$30 billion of federal spending on goods and services. This is a 10% reduction. It's huge. It's never happened before. In 1996 we took out \$2.2 billion in goods and services spending. Again, that's huge and it's on top of the cuts that we talk about here in 1995, 8.7%.

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So as we look ahead to the balance of the decade, there's going to be very, very tough restraint in place in this country almost regardless of what happens, and these kinds of cuts we have had to put in here in order to meet the 3% target imply structural change in spending. It's not going to be possible, in our view, to accomplish this goal by tinkering on the margin. I hope I'm not overstating.

If you look at the middle slide on the next page, that's the one that's a little worrisome, because even with these changes, the debt-to-GDP ratio remains about 100%. It does not fundamentally alter the fiscal situation in Canada, federal and provincial governments added together, and I think this is the most important finding of this research that we've done. Even with the level of cuts that we've put into place, we still just stabilized that ratio. If you look at what happened to us in the middle to late 1980s, we had a period of strong growth and we stabilized the ratio, and that's all that we did. So this is why our view is that this will require, to turn the situation around, some serious structural change.

Keep in mind that I said at the beginning we are expecting a cyclical slowdown close to recession in the United States in 1997, first part, similarly here in Canada. So with the kind of changes in spending and so on that we have in the regime, the best we can hope for is stabilization, and that's with these significant cuts.

Let me just turn over to the last point I want to make and then, Paul, you can take over.

Exchange rates: The Canadian dollar, in our view, is seriously undervalued. Why? Foreigners do not have confidence in our ability to pay the interest on our debt and our ability to finance it long term. That's one reason. The second reason, of course, is our political debates, which of course make foreigners nervous. So the currency that we have, that PPP line, suggests, at least in our analysis, that the currency should be worth, say, 80 to 83 cents. So when you're down in the low 70s, it's really

low—well undervalued. At the upper 80s, which is what we had under the former government in Ottawa, when it was fighting inflation, it was way overvalued. So we've gone from way over to way under. Now, these situations can last for some length of time and it's going to be very difficult for us to see a rapid move towards the 80-cent value that we think is realistic.

The last chart on that page then: Overall export performance is still super, and it's going to continue to be that way and Ontario is going to benefit a lot from that.

So with that quick introduction, Paul, can you do something on Ontario for us.

**Mr Paul Darby:** Basically what I plan to do is just briefly go over the outlook for Ontario.

First of all, in summary, it's fair to say that the Ontario economy began to experience a full recovery probably in the summer of 1994. It's been booming since. We saw substantial increases in exports in Ontario as early as 1992 but a very lagging domestic economy consumption, housing and so on, but finally by the middle of 1994, the strains on capacity, the strains on employment in the manufacturing sector, have forced firms to begin hiring in Ontario.

Since June, there have been 124,000 people put to work. Those are full-time jobs. I think the number of part-time jobs actually declined, so we've probably got more than 124,000 full-time jobs created. You're talking manufacturing, you're talking construction; they're highly paid. At that point, of course, other sectors begin to join the parade, particularly consumption and so on. So by the summer of 1994, I think it's fair to say, the Ontario economy went into a full recovery, and we've been waiting since 1989 for that to happen.

If you look at the slide on housing starts, we are forecasting a slight increase in starts next year but it's rather anaemic. The high interest rates that have just come through are going to help to dampen that off. Whatever growth we do get in housing starts is going to come from the employment growth. It feeds a slight increase in real residential investment spending, which is the next slide.

Interestingly, we are forecasting a turnaround in Ontario in non-residential construction. This will mainly be in the industrial and retail sectors, not commercial office space, and infrastructure spending, which is not unimportant in the outlook for 1995.

Machine and equipment investment is still quite strong in Ontario in real terms, but not at the same pace that we saw in 1993-94. Darlington is just about finished putting in generators and a lot of the retooling at the auto plants is more or less behind us. None the less, in the drive to remain competitive, we should have Ontario manufacturing firms continuing to put in place automated equipment. This helps to drive machine and equipment investment at over 6%.

The big story is exports. Turn to the next slide. We're still looking for 11% growth in exports in 1995. In fact, auto exports will be higher in 1995 than they were in 1994, in spite of probably some slight decline in auto sales in the US. This is simply a result of this retooling

that took place early in 1994 and depressed exports in 1994. It'll come through in 1995. We are looking for slightly lower exports in some of the other sectors, as the cyclical recovery finally begins to wind down, but we're still looking at 10.5% growth in exports in 1995. Clearly, it continues to be the main driver of the Ontario economy, and it's not hurt by a dollar that's trading in the very low 70s.

The big story, as I've suggested, is employment growth, a 3.2% increase in employment on an average annual basis in 1995. We haven't seen that number since 1988. It's been six years coming, but it's pretty much in the bag now. It's almost in the history; 1995 is going to look like a wonderful year with respect to employment growth in Ontario and is in fact what is underpinning any kind of growth that we have in the province.

Not really a problem on inflation; just remember tobacco tax is out of the numbers so inflation should jump up to 2% as measured. It's really always been there.

Consumer spending will be at about 3% in Ontario in 1995 in real terms. Note, however, that in 1994 we saw something even slightly higher. In 1994, in fact, households financed a lot of this consumer spending by reducing their savings, a lot of pent-up demand which was finally expressed. We can no longer look for that in 1995 because it's hard to imagine the savings rate falling any lower than it already is, but with 3% growth in employment, that should be sufficient to fund an increase in consumer spending of around 3% in 1995.

Some bump and grind on the durable side because the higher interest rates will presumably hurt some car sales and the white goods, the large ticket items. But there should be enough momentum coming in from the employment growth to again get us 3% consumption: 3.3% in 1994, 3% in 1995, 2.9% in 1996. There are three solid years of consumer spending growth that should take place in Ontario.

Imports: Rather high in 1995 because of continued machine and equipment imports. Also, because of the auto production going up in 1995, there's a fair amount of imports of parts to feed that, so you do leak some out. But overall the bottom line is real GDP growth of about 3.8% in 1995, compared to 4.5% in 1994.

If we've got more or less the same exports, if we have more or less the same consumption, why are we looking at lower growth in 1995 compared to 1994? The main reason comes from what Jim Frank discussed in terms of what's happening on the fiscal side. The substantial cuts in spending that we're looking forward to from the federal scene are sufficient to take at least half a point out of growth in Ontario in 1995, in our view. Indeed, with some higher interest rates and slightly lower consumption, you can get the rest.

Nevertheless, 3.8% growth—we'll, I think, take it. It comes after 4.5% in 1994. Slightly slower in 1996, in our view, and then, over the horizon of the short term, comes the nasty spectre of the slowdown. It's something we should all keep in mind, that you cannot expect to grow at 3.5% forever. That concludes my remarks.

**The Chair:** Thank you. We have just a little more



than two minutes per caucus, so I guess that would be one short question per caucus.

**Mr Sutherland:** Do we have 45 minutes for this group?

**The Chair:** Oh, I'm sorry. Thank you for correcting me on that. Indeed, this is a forecaster and we have 45 minutes.

**Mr Sutherland:** So we have seven minutes?

**The Chair:** Seven minutes per caucus. Let's get at it.  
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**Mr Sutherland:** Yesterday we had a couple of other forecasters in, and without comparing every forecast or every statistic they gave us to yours, one issue that did come up was this question of proposals of significant tax cuts and whether, given the fiscal situation, that was a good idea or not, and given the savings rate is low and also personal debt is still relatively high, whether a tax cut would stimulate significant extra consumer spending or whether those dollars would be used to increase the saving rate or pay down the personal debt. I was wondering if you had any comments on that as to how that would play out.

**Dr Frank:** Frankly, I haven't thought about tax cuts for so long. But to be serious, I don't know that there are many governments that are in a fiscal position where they would want to do that and take the chance that the income gain on the tax side from a bit stronger activity would be "worth it." I don't think the arithmetic would give you that answer. If you're talking about a tax cut to stimulate at this point in the cycle, it's not clear to me how that would work out to your advantage.

**Mr Sutherland:** Okay. You mentioned an increase in the non-residential sector—an increase in the retail sector—in terms of investments. Could you just elaborate a little more as to what the rationale is for that?

**Mr Darby:** Shopping malls, retail developments more or less in the outlying areas, suburbia, small towns—Brampton is an example—not in Toronto, not downtown Toronto. But certainly we are seeing a number of strip mall developments taking place in smaller urban centres in Ontario as well as some of the growing cities such as London, Kitchener, Waterloo. That has come up into the numbers, interestingly enough. It may partly reflect some of the changing demographic character of Ontario. It probably also reflects retail demand which has finally come back—again not so much in the urban Toronto area, but in some of the more outlying centres of Ontario, though we have seen some announced projects in terms of retail. It's not as significant, however—even though it has turned up—as what we're seeing on the industrial side and also on the infrastructure spending. But it finally has turned up; we're actually seeing some growth there.

**Mr Wiseman:** I'd like to pursue a question that intrigues me. I thought the separation between our prime rates and the American prime rates right now is about three and a quarter. What are they?

**Dr Frank:** A quarter of a point. On the prime rate?

**Mr Wiseman:** Yes, between the Americans and us?

**Dr Frank:** Yes.

**Mr Wiseman:** So it's a quarter of a point. Then how do we determine the rates? If the T-bills are 120 basis points apart, how do we get these wild fluctuations in terms of the separation between them? Is it based on T-bills, or how do we calculate that?

**Dr Frank:** The Treasury bill rate is the interest rate that typically drives other rate structures because it's a market-determined rate, and so are the rates on bonds that are outstanding, because they're bought and sold on a weekly basis. For example, today at 2 o'clock we had a new Treasury bill rate setting. It's an auction. People buy them and it sets the rate. You understand that. The difference between the Treasury bill rate is what's in that particular chart there. The prime rate, alternatively, is a rate that's a retail rate to consumers, and there's a typical spread between it and the Treasury bill rate, but it can vary a lot depending on market conditions. For example, the reduction in the mortgage rates yesterday was probably more to do with the fact that people don't want to borrow money to buy houses than it has to do with what's going on in the market with pesos or with the Canadian dollar or with T-bill rates. It's a retail market rate.

**Mr Darby:** A quick supplemental to that: There's been a tendency for the prime rate in Canada to be artificially low compared to the US prime rate because a lot of our domestic demand, particularly housing and mortgage markets and consumer loans, has been low compared to the US. So banks have tried to stimulate that demand with a lower prime rate.

**Mr Wiseman:** Thank you. That leads right into the next question. Given that our capacity for non-inflationary growth in the economy is greater in Canada than it is in the United States and that, if I understood you correctly, you said that growth in the United States is overheated, if they increase their interest rates, which seems to be what Greenspan at the Federal Reserve wants to do, to cool out their growth by putting people out of work, how do we divorce ourselves from that, given that we have a gap of non-inflationary productive capacity available to us, an extremely high unemployment rate compared to the American unemployment rate? How do we divorce ourselves from winding up having Mr Thiessen at the federal bank increase our interest rates, put our people out of work, when we already have a capacity that's not inflationary?

**Dr Frank:** I think there are two answers to that. It's an excellent question, the sort of question we should be asking ourselves as Canadians. It's not possible to separate out the components here, but I think there are two broad answers. One is \$753 billion worth of debt, 40% of that held by foreigners; also, a political debate that's going on, on an ongoing basis, about whether the country is going to stay together or not.

I'd put it this way to you: If you had \$100 million to invest and were an American, if you could earn 5.83% on T-bills in the United States, would you loan your \$100 million to Canadians if you could get only 4% in Canada? Would you buy Canadian debt instruments if the interest rate were lower in Canada than in the United States? The record suggests that doesn't work.

**Mr Wiseman:** I understand that. I'm talking about the gap between the T-bill rendering and the Bank of Canada rate that they set in the marketplace. That is quite a bit higher. I'm concerned because we were told yesterday that for every 1% increase in interest rates in Ontario, that's 20,000 jobs reduced in the economy, and if we're ever going to—

**Dr Frank:** Okay. I know what the point is, and the issue is whether or not Canada could run a negative spread, or have the spread even narrower than we're forecasting, at about, say, 110 or 120 basis points. In our view, we believe that, absent these other two issues, we could have spreads that are negative, but that's fairy tale. We have those two issues before us day to day, and until we somehow get some resolution of them, it's hard to see how we could get those people who lend us money on a daily basis to accept a lower interest rate than they can get somewhere else.

**Mr Darby:** It's interesting, if I can interrupt, on the record, the Bank of Canada has tried twice now to get negative spreads vis-à-vis the US interest rates for exactly the reason that you indicated. They feel there's a lot more excess capacity in Canada, we could use a little stimulative boost, and we don't have the same demand conditions as the US. In both those attempts they failed rather dramatically. The last one was of course with the Mexican episode, and the Canadian dollar was—a lot of people decided it looked a lot like a peso to some extent and no longer a store of value, and they flew from it.

The issue really comes back to, basically, unless you can get the amount of debt that's held by foreigners down and unless the constitutional issues can be resolved, we will be continually paying an interest rate premium. It's difficult to divorce the monetary policy in Canada from the rest of the world as long as you're depending on the rest of the world to finance your fiscal situation.

**The Chair:** Thank you. Mr Phillips.

**Mr Wiseman:** I'm finished because I ran out of time, not because I ran out of questions.

**The Chair:** You actually used considerably more time than was allotted, but that was such a good question and good answers that I didn't want the committee to miss that.

**Mr Phillips:** We had a presentation yesterday from the government that said they had done a survey of nine or 10 independent forecasters that were predicting, I think, 3.9% real growth over the next five years.

**Dr Frank:** Per year?

**Mr Phillips:** I think they handed that chart out this morning, if I'm not mistaken. But you have a slightly different view of that. Why would there be such a discrepancy between those eight or nine—this is it here, the "Survey of Private Sector Forecasters, January 1995."

**Mr David Johnson:** There are five of them over there.

**Dr Frank:** That's three years.

**Mr Phillips:** Okay, 1995, 1996, 1997, 1998. I always add them all up. Four years, okay.

**Mr Darby:** You're obviously trying to guess what is

in the minds of other forecasters.

**Mr Phillips:** I assume your number must be in here, that's all.

**Dr Frank:** I would imagine it is.

**Mr Darby:** Depending on when it was done.

There's a concern in Canada that in fact we have what's called a large output gap, that if you look at the potential of the Canadian economy to produce, if we were to fully employ all our resources, our capital and our labour, that would give us a potential level of output. The concern is that when you look at the actual measured level of output, it's about 8% below that potential. That preys on the minds of a lot of private sector forecasters, because if you look in history over any long period of time, the tendency has always been for us to close that output gap.

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With potential output growing in the order of about 3% a year, if you're going to begin to close that gap over the course of four or five years, you're going to have to add at least another 1% a year to that growth in potential, so you're talking on average 4% growth. I would suggest that in my own mind that's a fairly mechanical approach to medium-term forecasting, but nevertheless one which is fairly pervasive in the forecasting community. It is a pressing concern that weighs on the minds of all forecasters. How do we close the so-called output gap over the medium to long term?

**Mr Phillips:** I'm trying to get at what's reality, and I gather you're saying that you—

**Mr Darby:** I also don't know what the date is on that survey of forecasters.

**Mr Phillips:** It says January 1995.

**Dr Frank:** It's hard for us to respond to what other people are doing because, as you know, there are some forecasters who are talking, I believe, about 5% growth in 1995 in Canada. We just have quite a remarkably different view of how things are going to unfold. To take Paul's point about growing so far above capacity for that length of time, that would almost certainly have to assume that there's no downturn in the United States at all, and I question that.

**Mr Phillips:** I guess we'll have to ask the government who the private forecasters were in its estimates. Your estimate, I gather, is a little less than 4% in Ontario for 1995 and then down a little bit more in 1996.

**Mr Darby:** Probably a forecast that we would have done in the fall, say September, would have been not 3.9% but closer. I think developments have taken place in the United States particularly which make it less likely that the United States will be able to wander through the next few years without having a severe downturn; that's become much less likely. It's now much more likely that the US in fact will enter into some period of slow growth in late 1996, early 1997. That's forced us, in turn, to downgrade our own outlook for the next three, four years in Ontario. It's possible that our numbers are in there, but they may be numbers that we had produced in September as opposed to numbers that we produced in December.



**Mr Phillips:** In the employment percentage change chart in Ontario, you show a bit of a decline in 1994 over 1993, that the rate of job growth declined a bit in 1994, which was unusual in that the economy seemed to be so robust. What would be the reason for that?

**Mr Darby:** Certainly exports were robust in 1994; there's no doubt about that. But we did see some weakening in the domestic economy in Ontario in 1994, which did have some impact on employment creation. Some of that in fact related to the pattern of interest rates, which began to rise significantly early in 1994, but as well, indeed we saw a pause in housing starts, we saw some pause in some of the components of domestic consumer spending, that had an impact on employment. I think the six months of growth that we've seen in employment since June, however, are not a false start or a false signal. We've got now six back-to-back months which are very solid, so I would suggest that the 3.2% increase that you see in 1995 is pretty much—

**Mr Phillips:** You could put it in the bank.

**Mr Darby:** Yes.

**Mr Phillips:** I gather we still had fewer people in 1994 working in Ontario than we would have had in 1989, though; we're just sort of beginning to work our way back to the 1989 level.

**Dr Frank:** I don't think so.

**Mr Darby:** In Toronto that's the case, but I think for Ontario as a whole—

**Mr Phillips:** The numbers from your economic forecasts I think show there were fewer people working in 1994 than there were in 1989.

**Dr Frank:** I don't have the numbers before me. Well, I might have; I don't know.

**Mr Phillips:** It's from the Ontario Economic—it's the government's numbers.

**Dr Frank:** It's quite possible that's the case because the productivity growth in the manufacturing sector has been quite rapid, so you don't get the kind of bang for the buck, as it were, on employment growth that you'd like to have, even when you get decent output growth. So it may be that we have that situation.

**Mr Phillips:** I just took the numbers out of the government's Economic Outlook.

**Dr Frank:** Yes, I think that's probably right. I may actually have the numbers here for Ontario. Yes, here we have employment in Ontario. What year did you want?

**Mr Phillips:** From 1989 to 1994.

**Dr Frank:** In 1989 the actual peak on a monthly basis was 5,006,000 people in employment. The current level is what?

**Mr Darby:** It's 4,955,000.

**Dr Frank:** Okay. So the answer's yes, to your point. The peak in employment occurred in February 1990 at 5,006,000. The December 1994 is 4,955,000, so you're still below the previous peak.

**Mr Darby:** Sixty thousand below.

**Mr Phillips:** I think the rest of Canada's up 240,000 and Ontario's down roughly 80,000, but in 1995 I gather

we'll eventually get back to where we were in 1989.

**Dr Frank:** In 1995 you will be well above where you were before.

**Mr Phillips:** Thank you.

**Mr David Johnson:** I guess you've heard the expression of the debt wall—

**Dr Frank:** Yes.

**Mr David Johnson:** —that we're going to hit the debt wall in Canada, and in Ontario, I guess, as part of Canada. When are we going to hit the debt wall?

**Dr Frank:** I don't know.

**Mr David Johnson:** Is it your view that the wall is a solid object, that what happens is that people simply stop lending, or is it sort of a flexible object, that bad things happen? Certainly bad things are happening to us right now: Our interest rates are up; the Canadian dollar's down.

**Dr Frank:** The Conference Board has been very prudent in how it describes this fiscal situation, and the wording in the write-up that's done in that viewpoint is not a casual exercise. What we feel is that as we have continued to add these large amounts to the debt stock, working in a 100% world is different than a 55% world: Your degrees of freedom are a lot less. We are not prepared to say that tomorrow or the day after or whatever all of a sudden foreigners stop loaning you money. It's very unlikely it would happen that way for Canada. However, Doug, if you could maybe just talk about Mexico in a moment, it's an interesting situation there as to how quickly the market said, "No, we are not going to play games with you on this." I'm not persuaded that we would have that same experience here.

But that said, the biggest risk we have is that the political debate could get out of control over the next six months, foreigners could get spooked, interest rates would likely have moved up quite sharply, and then you precipitate something that becomes very hard to manage.

Now, hitting the wall, as it were, where people say, "We will not loan to you," is not in the cards, at least in our view, because as a country we are still rich enough to be able to afford to pay higher interest rates on our outstanding foreign-denominated debt.

Now, on Mexico.

**Mr Doug Nevison:** Although there have been some comparisons with Mexico, and certainly the Wall Street Journal article tried to draw the parallels, I think much of it comes down to capacity to pay, and as Jim said, Canada's capacity to pay its debt is certainly much greater than the Mexican situation was. So in terms of hitting a wall, I don't know. I think it's a gradual situation, but you do realize how vulnerable you become in terms of interest rate swings, as we've seen in the Mexican crisis. The spreads that we were talking about before widen quite considerably; now they're starting to narrow back a bit. It's that vulnerability, I think, that is the issue.

**Mr David Johnson:** What bad things would happen if the assumptions you've made with regard to a reduction in transfer payments from the federal government to the provincial governments, and I think you said a 10%

reduction in goods and services—

**Dr Frank:** Total.

**Mr David Johnson:** Total. If that didn't happen, because there are people making deputations and saying, "No, don't cut funds to us; we recognize that the deficit is serious and the debt is serious, but don't cut our funding," and if those voices are listened to and these kinds of cuts don't happen and the debt-to-GDP ratio keeps climbing, what then is our outlook in the few years ahead?

**Dr Frank:** The obvious answer there is that your interest rate profile's going to be a lot higher. We don't know what that number would be. It's pretty clear now that we're paying higher interest rates than our underlying relative inflation performance would justify, or than our relative competitive position would justify. The Canadian economy is doing very well, we are very competitive internationally, and yet our interest rates are way higher than the United States. In real terms, they're very high within Canada. Why is that? I think the answer is because we are asking markets to give us a fairly significant chunk of change every month.

1520

**Mr David Johnson:** Just looking at Ontario, I think the problem we've faced is—go back to 1985 and the expenditures were about \$28 billion in the province of Ontario. They've doubled since that period of time, counting capital programs, operating expenses, crown corporations, to about \$55 billion today. Not surprisingly, taxes have gone up considerably during that period in an attempt to pay for the expenditures. Of course, they haven't succeeded, so we've had deficits.

As a result, as we sit here today, expenditures are far too high in the province of Ontario and taxes are too high. That's why the question of a tax reduction has come up. That's why the program we're putting forward, the Progressive Conservative program, is to cut expenditures back by \$6 billion, which still leaves them, in terms of 1985 expenditures adjusted for population and inflation, above 1985 figures, and to reduce taxes by \$4 billion.

You said in your comments that incrementalism will not work. I think you would agree that that sort of program is not incrementalism.

**Dr Frank:** I wouldn't call that incrementalism, frankly: \$6 billion dollars in Ontario?

**Mr David Johnson:** In Ontario.

**Dr Frank:** In one year?

**Mr David Johnson:** No, over a three-year period.

**Dr Frank:** Even over three years, \$2 billion a year is a lot of money in Ontario.

**Mr David Johnson:** It still would leave expenditures in the province of Ontario well above 1985 levels.

**Dr Frank:** Yes.

**Mr David Johnson:** Maybe without commenting on the magnitude, is that the kind of direction you think is necessary to get government spending and revenues back in line?

**Dr Frank:** Looking back, I've lived through enough

of these budgets, and in working in the area for 10 years now, you start to get a feeling for the politics and the economics of the kind of change that's going to happen. When I look at all of the budgets of the last decade, federally and provincially, there are hundreds of tax increases and hundreds of expenditure "cuts," and still you can see the record there. Nobody can argue with that; those are facts. That's why I say that incrementalism won't work. You can't add half a point here or a cent a litre there, you know, two bits on a bottle of whisky or whatever.

The problem with the tax side of it, to deal with it in terms of raising taxes, for example, or even cutting taxes, is that unless you've addressed the spending side, the next recession you get hit with leaves your spending relationships intact, so the structure of your spending does not change. As sure as we're sitting here, there will be another recession—I may not be able to tell you when, but certainly before the end of the century—and if there's no change in the structural relationships of spending, then simply raising taxes or trying to deal with it by tax cuts to play the Laffer curve game of Reaganomics is not going to address the fundamental imbalance that's there.

You've heard the term "structural deficit." It's a deficit that exists when you've got reasonably full employment and so on. It's probably quite large in Canada. You could pick a number, \$20 billion dollars—I don't know what it is—but it's too large simply to leave this to go on for a long period of time. That's why—we've been doing this forecast now for about six months—we're saying this is the budget where we will see the big changes. We're forecasting that.

You're right, there are a lot of people advising not to do this, but I don't think the choices are that broad to avoid it. I think what Mr Axworthy's gone through in the last week and a half pretty much demonstrates that, of the views within the Liberal government, the Finance department is going to prevail on this issue, at least for the time being.

**The Chair:** I'd like to thank the Conference Board of Canada for making its presentation before the committee this afternoon, and I apologize one more time for that mixup with respect to the time.

#### CANADIAN FEDERATION OF INDEPENDENT BUSINESS

**The Chair:** The next presentation this afternoon is by the Canadian Federation of Independent Business: Catherine Swift, the executive vice-president, Judith Andrew, the director of provincial policy, and I see there's an additional person.

**Ms Catherine Swift:** Yes, we have a third person with us. In fact, last time I think we had a third person, but it was Judith's two-month-old baby at the time. This time we're sticking to the adult route.

I'm Catherine Swift, executive vice-president of the Canadian Federation of Independent Business. My colleagues are Judith Andrew, who's our director of provincial policy with special responsibility for Ontario, and Ann Smith, our director of communications for the federation.



Since we only have a very brief amount of time, we have distributed our written brief. We entitled it *Seeing Red*, partly because of the volume of red ink that we seem to be swimming in in this province unfortunately and partly because I think it very accurately represents how our members feel right now, our small and medium-sized business members, about what is going on in this province and has been going on for quite a number of years.

I don't know that we're going to really say anything new here today that we haven't said in many other appearances for many years before this committee. We may put a little more updated data to it, we may tailor it a little more to present times, but we have for a long time now, not only in Ontario but across the country because we are a national group, very much emphasized the need to structure our policies in the economic sphere and the financial taxation sphere better to that constituency that is creating the jobs right now. For at least the last 15 years or so, in Ontario and in Canada, that has been the small and medium-sized business sector.

Just recently, actually, we got some data I'd like to distribute—I don't think we have quite enough copies, but we probably are pretty close to having copies for everyone—on some of our recent job creation data. I hope I still have a copy; yes, I do have one.

This is Statistics Canada data. They just came out with 1992, which is unfortunately fairly normal for Statistics Canada. Nevertheless, it does happen to be the only database we've got that we have job creation disaggregated by size of firm. These data, which literally just came out very recently, show that even in a very, very bad recession year—if you look under the second set of columns there on the page, under 1992—even in that very, very difficult year in the economy, we saw—and these are just Ontario data, this particular one, and we do have data for other provinces as well—the less-than-five-employee size of firm creating jobs.

Even though we had, on a net basis, a massive loss of jobs from our economy overall, we still had this very small group creating employment, and our past data would suggest that about half of these jobs come from existing firms expanding and about half come from new firms that start up and employ other people. What we found different in Ontario, which is kind of interesting—and we only found this through the last recession; we hadn't found it in previous data—was that in other provinces we had both the less-than-five and the five-to-19 employee groups; in other words, those two smallest groups in the economy, and they do represent, by the way, about 95% of the total number of businesses in Ontario.

In other provinces those two groups were both creating jobs. In Ontario it was only the less-than-fives, and we found this kind of interesting and we believe it to be very directly related to the kind of policies that we have seen put forward in this province for a number of years now which are very punitive to the smallest firms and these 5-to-19 firms in particular. You'll think of things like pay equity, things that click in around a certain employee size; things like occupational health and safety clicks in

around 20. We recently have employment equity which comes in at a higher level of 50.

We also have the fact that an awful lot of our tax system is disproportionately burdening the smallest of firms, and the matter of things like relatively high costs of doing business, whether it be wage levels, benefits etc.

#### 1530

The cumulative effect of all of these policies among our membership has unfortunately been very much to dampen expansion, dampen job creation, and this is what we believe is the reason behind this rather unusual profile for Ontario as we compare it to other provinces. So it's just interesting to observe those relationships.

The way we've structured our actual submission this year is just a series of one-page notes, so that hopefully they're brief and to the point. As you probably know, we've often got full briefs on many of these subjects, which are certainly available to anyone who might be interested, but we thought we'd take the quick-and-to-the-point route this year and just do one-page briefs on a number of the key issues that our members tell us are most important for them. Judith, I wonder if you could just highlight some of the really important ones among these issues.

**Ms Judith Andrew:** We cover our members' number one problem, which is total tax burden, and that's in the first one, including the chart, and then a range of other taxes, employer health tax, corporate minimum tax, local taxation, and an interesting field that's growing, fee and non-tax revenue. We also deal with deficit-debt-government spending, red tape, regulation, paper burden, workers' compensation, health and safety, minimum wage, unfair competition and Ontario Hydro.

Obviously we can't talk about all of them today, but I wanted to emphasize some particular points in the area of taxation, which, as I mentioned, is the primary problem facing small business in Ontario. Our members cite ongoing concern with this, and it's unacceptably high at 87% at this point, as compared to 55% just a few years ago. Our studies show that the tax structure is biased against small and medium-sized business. The chart in the brief shows that total tax burden is heaviest on the small and the medium-sized businesses and, even worse, the composition of that tax burden is heavily skewed to the profit-insensitive payroll taxes and local taxes. Of course, in the payroll tax category is the employer health tax. Local taxes represent property and business taxes, including the education component.

We are updating these tax studies. This particular chart is somewhat dated, but we have some preliminary results for Quebec with some new data, and they tend to confirm the same general picture, and I expect that will be the case when we finalize the Ontario ones.

We noted that yesterday the Ministry of Finance made a presentation and dealt with the issue of tax competitiveness. They tend to try to show that Ontario's tax environment is competitive. Yesterday's presentation referenced a study done by KPMG Peat Marwick which was done for the state of New York. The minister's chart which he put up, entitled "Effective Corporate Tax

Rates," showed that the total effective tax rates, including federal income taxes, put Ontario in the second-best position after Quebec.

We found it curious that there wasn't another chart which showed that, according to the same study, Ontario actually stands in the second-to-worst positioning on the state, provincial and local tax level. So the effect of it is that the federal income tax is the item in the tax mix that the study includes that in effect puts Ontario in a good position relative to the other states that are compared there.

I guess this goes to show that, as always, the results of these studies depend on what is included in the tax mix. We find that if payroll taxes are included at all, and we don't believe they were in the KPMG study, the tendency is to exclude the important WCB payroll tax, which is a substantial one here in Ontario, and it is a mandatory tax; it's not something that's voluntary.

If payroll taxes are compared, we would argue that WCB payroll tax ought to be included. When the minister put up his payroll taxes chart yesterday, it certainly appeared as if WCB was not included there. Also, we noted the large US levies for payroll taxes of course include their social security payroll taxes, which generally reflect a different approach to financing retirement in that country. Again, it's very hard to make these comparisons.

I guess when all is said and done, we continue to believe that Ontario's tax structure is uncompetitive, particularly for small businesses. Since small businesses are responsible for the bulk of job creation, we feel that the tax structure is indeed a barrier to job creation, and any government that's interested in creating jobs would do well to heed that point.

Our general recommendations with respect to tax burden are, of course, to alleviate the total tax burden, preferably by reducing the payroll tax and local tax burdens and certainly by freezing other taxes and charges and by refraining from introducing any new ones.

Our specific recommendations with regard to the EHT—and I should say that last year's relief was welcome, but it certainly isn't the ultimate solution to the regressive burden of payroll tax on Ontario business. Last year's relief could be improved with our recommendation of replacing the EHT graduated rate structure with a small business allowance set at the level of \$400,000 of payroll. This isn't a new recommendation from us but it's one that we want to reiterate.

On the corporate minimum tax front, again this is an area which troubles us because the corporate minimum tax in fact vastly added to the corporate tax compliance burden but really didn't do very much to improve tax fairness, especially for the small businesses wrongly captured in the net. We're arguing here that there should be measures to put into full effect the small business exemption. We would like to see, beyond elimination of the corporate minimum tax, if that's not done, at the very least raising the threshold so that some of the very small firms that are currently captured in the net of the CMT are excluded.

On the local tax front, we have a substantial paper

here. Considering that it's one page long, it gets into a number of recommendations on restructuring taxes at the local level. We would certainly encourage the Ontario government to see the need to get involved here and, in effect, deal with what is another punitive tax for small business that is insensitive to income. Property taxes are levied no matter what the business income is, and there really needs to be some restructuring to make them more fair for small business.

On the fee side, we've noted that fees have been a growing item in the budget. Non-tax revenues have more than doubled, from \$300 million at the beginning of the decade to over \$700 million planned for 1994-95. A whole range of fees has gone up. There are some very troublesome ones, such as the \$50 corporate filing fee, that we would suggest should be rescinded. Also, probate fees are excessive. Ontario's probate fees are now in excess of any in the country. We believe there should be a couple of rules guiding the fee-for-service principle. First of all, users must actually receive a service for their fee, and fees ought to be collected as a replacement for taxes, not as an addition to them.

One low-cost way of assisting small business is certainly in the regulatory area, and we would welcome any initiatives to alleviate the regulatory burden on small business. The paperwork burden is a big issue and is a low-cost initiative for government. The Clearing the Path project is a bit of a start in one very small area, that is, people who are registering their businesses, but there's much more to be done for all the existing businesses out there that are seeing a lot of their valuable time and effort taken away from the business in order to push government's paper.

I'll conclude there, and we're happy to take your questions.

**1540**

**Mr Phillips:** A very thoughtful presentation and interesting specific recommendations. In terms of I guess cost associated with the various recommendations, have you a feeling on what the cost might be in the corporate minimum tax of your proposal on taking it up from \$5 million to \$10 million on the assets?

**Ms Andrew:** On the corporate minimum tax, yes, I do have the numbers on that. If you raise the one threshold, if you raise the asset threshold from \$5 million to \$10 million, the tax cost to the government is \$5 million. If you raise both thresholds, in fact double both thresholds, the tax cost is \$7 million. So it would put into effect a full small business exemption, get rid of those businesses in the 5-to-19 size that are currently captured by the tax: relatively speaking—and I don't like to play with millions here, but relatively speaking—not a very large tax cost.

**Ms Swift:** A lot of the problem too with measures like corporate minimum tax is not that it's raising enormous amounts of money or whatever but it's the paperwork that the businesses are forced to go through to elicit often a very small, if any, amount of money from that firm. So it's equally, if not even more so, a paperwork issue as a money issue, I would say, in that case.

**Mr Phillips:** I remember when it was going through,



I think actually the Fair Tax Commission did quite a detailed study.

**Ms Swift:** Well, they recommended against it.

**Mr Phillips:** That's right, and did a detailed study on the cost implications for businesses of doing it, and I think on the small business the cost associated with the—

**Ms Andrew:** The figures I just gave you are new figures from the Ministry of Finance, right up to date, as of last week.

**Mr Phillips:** The cost associated with the employer health tax recommendation at the \$400,000 payroll level.

**Ms Andrew:** That's fairly large. It depends on how it's done. If you just had the break at \$400,000, it's somewhere in the \$250-million range. If you exempt the first \$400,000 of payroll for everyone, it's closer to \$400 million. It's large, but again, payroll taxes are the bane of small business and we would certainly appreciate some relief in that area.

The probate fee one is interesting. We just received some figures on that one. The effect of the new formula that came into effect in 1992 was to double the tax take on that one. So instead of roughly \$25 million, \$26 million per annum on probate fees, the government now is bringing in about \$50 million, a little over \$50 million.

**Mr Phillips:** One of the challenges on the fee one is I think you're saying that it's a replacement for tax, not an addition to them. There's always the challenge that governments use it not as a replacement but as an addition to it and—

**Ms Andrew:** That's what's been happening here.

**Ms Swift:** Yes. It's a problem we found in many jurisdictions, because as governments become more broke, they get more creative looking at other ways to raise money, and the tax side becomes difficult to tap past a certain point because we know it just tends to drive activity underground. So that's when you start getting into this fee stuff, and it's often—well, the corporate filing fee's a classic example. It's not the \$50 so much; it's all this stupid paper for some idiotic reason to confirm that they haven't changed their information or whatever, and the \$50 was just kind of like a slap in the face.

I'm sure you've heard the Newfoundland example. We've used it many a time. They eliminated about 70-odd fees and diddly nickel-and-dimey kind of stuff and they found they happened to forgo \$2 million in revenue. They saved \$3 million in administration cost, and that was just for the government. So the business sector, freeing up those resources that no longer had to push those papers and pay that 20 bucks, 50 bucks, 100 bucks, whatever it was—a big efficiency measure.

We feel for governments in dire fiscal straits, which just about everyone is in right now. It's a cheap way. We view it as really equivalent to a tax cut. If you can simplify the paperwork that business has to deal with, that can have the equivalent beneficial effect on the economy of a tax cut, but you don't forgo the same kind of revenue if you cut taxes on the government side. So we really feel governments that aren't very, very serious in looking at all of these cheap means of spurring

economic growth are really missing an opportunity.

**Mr Carr:** Thank you very much, Judith, Catherine, Ann. It's kind of ironic that you mentioned that. We had spent some time in our small business task force speaking with you as, I think, the first people we met with, and of course we incorporated one of those recommendations. The one you mentioned of Newfoundland I hadn't heard of, and we took that one as well as the employer health payroll tax on \$400,000; we used your exact figures. If you look at our small business report—it was called *Creating Jobs Through Small Business*—a lot of what we incorporated in there was not something that was designed by Mike Harris or Ted Amott or myself or David. We simply listened to you and we've been listening to the members.

I haven't had a chance to speak with you since you've got a copy. I just wanted to see, and so we don't get too partisan here, if a government was to take some of those recommendations, any government, and incorporate them in the next government that comes along, what would it mean for you and your members? Basically what I'm asking is, what do you think of some of those ideas in our small business task force report?

**Ms Andrew:** Well, to be frank, a lot of the ideas mirror very closely a number of the positions we've been advocating over the years.

**Mr Carr:** We stole them all.

**Ms Swift:** So we can hardly find fault with them.

**Mr Carr:** I know a great idea and an intelligent person when I see one.

**Ms Swift:** We haven't changed our minds; let's put it that way.

**Ms Andrew:** We definitely agree and we believe that it is very possible to create more jobs through small business and that Ontario's potential in this regard is currently stymied.

I have brought some extra copies of a recent report that we've done entitled the *Small Business Outlook for 1995*. It deals with our members' investment and employment intentions and some of the government obstacles. Certainly there is room in Ontario to improve things. We could be doing even better on the job front than we are if some of these obstacles were removed.

**Mr Carr:** In terms of taxation, as you know, one of the reasons we've called for tax cuts is that we're uncompetitive. I think you've mentioned that and I thank you for your help, because when I looked at the statistics yesterday that the government put up, as I said to David, I was surprised that it was up there. We're one of the highest-taxed jurisdictions in all of North America and in Canada, and one of the problems we've got, as we got into yesterday, with people like, for example, Alberta, is their personal income tax rate is about 30% lower than ours and they don't have a sales tax, as you know. They've been able to deal with the deficit on the spending side, and the problem we face in this province right now is the high tax structure.

As you know, what we've called for is dramatic spending cuts, \$6 billion over three years, but also giving, of that \$6 billion, \$4 billion back to the people of this

province in tax cuts to do as they want, and buy and sell and so on. We believe that rather than an infrastructure program like the federal Liberals have done, in giving money to the taxpayers they will then go out and spend money with your members.

I just wanted to see if you could comment on what a \$4-billion tax cut would mean to your members. Do you have any idea of what it would do to the small business sector if \$4 billion was given back to the taxpayers to go out and spend as they want?

**Ms Swift:** Are you including businesses and individuals there in that cut, in the \$4 billion?

**Mr Carr:** No, that's personal income tax.

**Ms Swift:** Okay, this is personal income tax. Well, I guess it would probably be double the reverse of what happened when they took \$2 billion out a couple of years ago, and we saw what happened then: a lot of bankruptcies, job losses etc. We very much feel that not only is the tax room exhausted so that even if you want to raise taxes, you're going to find it won't have the revenue impacts you want, and governments have found this over the last few years, and it certainly will further harm the economy as well. We very much believe the opposite prevails: It will create more jobs and so on.

I don't think \$2 billion a year is radical either. I only heard the latter half of the previous presenters. When you look at what's happened in business, \$2 billion on a \$45-billion to \$50-billion budget is nothing. Sure, it's harder for governments because their bureaucracies are harder to move etc, but you look at what's happened to an awful lot of companies in the private sector and they have accomplished way larger cuts. So that's where you've got to start, if anything. We're looking at necessary federal cuts of between \$10 billion and \$12 billion on about a \$120-billion budget just so they can stay out of the dead zone in terms of finances. So I would just want to say we don't find that to be radical.

1550

But in terms of the positive effects, it'll have positive quantitative effects as well as positive morale effects. A lot of what's happening right now among businesses, everybody, is simply that everybody feels overtaxed; they feel they don't have the money. Even if they have some, they won't spend it because they're afraid of what's going to happen down the road. Putting more money in people's hands will obviously induce them to spend more of it and will have a psychology change as well that will be positive, so I think we'll see a lot more jobs created.

**Mr Carr:** I agree with you and I thank you very much.

**Mr Sutherland:** Just regarding your analysis on the 1992 job figures from Stats Canada, I guess I have some concerns with that because you attribute it to such legislative policies as Bill 40 and employment equity. Of course, Bill 40 and employment equity were not in law at the time, in—

**Ms Swift:** I didn't say Bill 40 or employment equity, actually. I mentioned occupational—

**Ms Andrew:** Employment equity was passed in 1987.

**Mr Sutherland:** What's that?

**Ms Andrew:** Pardon me.

**Ms Swift:** Pay equity.

**Ms Andrew:** Pay equity was passed in 1987.

**Mr Sutherland:** Sorry. I said Bill 40 and employment equity because you list them in your report here.

**Ms Swift:** There, yes. But, I mean, let's face it, we had occupational health and safety, pay equity etc.

**Mr Sutherland:** All right. I just want to be clear. I mean, you attribute it to them. I hear a lot about Bill 40 allegedly being job-killing legislation and yet you're attributing that to before Bill 40 was passed. Now we have these pieces of legislation in here. Ontario had the best job growth last year it's had since 1988. I guess the comment I wanted to make is that I appreciate the concerns you've identified in terms of the paper burden, the Clearing the Path initiative. While we've only done the first step, we've clearly indicated our intention to go further with that, to make one-stop filing and reporting as much as possible in a single business registration number.

You also mentioned here that consumer confidence is sufficiently precarious. We've heard from some of the other forecasters that consumer confidence and business confidence is at some of the highest levels in several years. So I guess the sense of what I'm getting from you is you seem somewhat negative in what's happening, yet the other factor that we're hearing is that for this year people are very positive, both consumers and business, that we're going to have a very solid year of economic growth both for small business and for large business.

**Ms Swift:** Like most things, it depends what you compare them to. We certainly wouldn't argue that consumer and business confidence is better than it's been in about three or four years because we're coming out of the—business cycles do prevail one way or the other and you're not going to ever counter them totally. You might give them a bit of a boost on the positive side, drag them down a bit on the negative side. We unfortunately feel—and we not only feel, we constantly get the feedback from our membership because, as you know, we survey them incessantly. Even with Bill 40 in 1992, that was coming down the pipe and people knew about it, for example.

The substantive effects are one part of it, but I don't think we can ever discount these confidence, or whatever you want to call it, impacts as well on behaviour which ultimately ends up in spending, not spending and so on. What we find right now is there's no question this confidence is better than it has been through the worst part of the recession but we still do find it very precarious. Recent run-ups in interest rates had devastating impacts on the real estate market. That tells you people don't have the confidence, because they react immediately to these changes. So I think it would be foolish for anyone to believe that good times are here again and we don't have to worry about what we do.

We've seen in financial markets over the last couple of months what hot water we've gotten ourselves into with our debt, with our foreign debt and so on and so forth. So although I don't disagree it's better, to think that that's a given and we're not going to put a dint in it by anything



we do as governments or whatever is just wrong and it's not the feedback we're getting from our members in Ontario.

**Mr Sutherland:** I'm sure you'll be pleased by the Finance minister's comments that he's not planning to raise any taxes in—

**Ms Swift:** Absolutely. That's a minimum, in our view. That's a minimum: Don't make it worse. Debts are high and we don't have any unrealistic expectations about massive tax reductions, but we do feel there are things governments can do, as we mentioned, on the legislative side.

Unfortunately, an awful lot of what we've seen in policies over the last few years has very much increased the paper burden on small businesses, not decreased it, and we need a reversal. It's created new bureaucracies as well within the government, and all of this puts a higher future tax burden on as well as increasing this inefficient paper-pushing that we find our business community is doing. Much better to spend that on growing your business and hiring more people than pushing paper for government.

**The Chair:** I'd like to thank the Canadian Federation of Independent Business for making its presentation before the committee this afternoon.

#### ONTARIO NATURAL GAS ASSOCIATION

**The Chair:** The next presentation this afternoon is by the Ontario Natural Gas Association. Please identify yourselves for the purposes of the committee members and for Hansard.

**Mr Paul Pinnington:** Good afternoon and good afternoon to members of the committee. I'm Paul Pinnington, the president of the Ontario Natural Gas Association. Bob Wood is a member of the association's finance committee and also the controller of Consumers' Gas. Gary Lowes is the chairman of ONGA's finance committee. Mr Lowes is also a senior director, management information systems and corporate development, for Centra Gas. Bernard Jones is president of Blue Apple Consulting and a consultant to the association.

We are pleased to be with you once again and thank you for the opportunity of participating in this important proceeding. This is the ninth consecutive time we've appeared before your committee. On behalf of the members of the association, we've prepared a discussion draft entitled *Pathways to Prosperity: Public Debt Reduction and Improved Competitiveness*. That's the blue text which we sent out to you about a week ago and which I believe has been distributed to all committee members. Mr Jones has prepared an overview of this paper, which he will take us through. A copy of that brief has also been made available to you this afternoon.

With your concurrence, Mr Chairman, I would propose that my colleagues and I respond to any questions at the conclusion of Mr Jones's presentation paper, along with the overheads. The brief has been provided to Hansard and additional copies are available to the press. With your permission, we will start.

**The Chair:** By all means.

**Mr Bernard Jones:** Good afternoon, ladies and

gentlemen. The title of our brief, which is *Pathways to Prosperity: Public Debt Reduction and Improved Competitiveness*, expresses two thoughts. One is that we're not going to achieve long-term prosperity unless we better balance the public and private sectors, and the second is that we need to prepare ourselves more for the competitive global economy of the next century, that the world is becoming more integrated and more competitive.

As Mr Pinnington said, this is a regular brief that we make to the standing committee. The association itself has 330 members and the industry serves over 2.1 million customers. Our purpose in providing the brief is to offer constructive input to public policy and our primary focus remains the economic and fiscal health of the province.

Looking at the economy first, there's both good news and what we would call risks or vulnerabilities. The good news, of course, is that everybody knows we're doing better. Employment is up—186,000 jobs in the past year by some counts. The recovery is somewhat imbalanced. It's been effectively export-led. We have an export boom which has stimulated the economy. Other sectors are beginning to come around and balance the performance a little better. Inflation remains low. All of that's good news.

But the vulnerabilities are considerable. In the first place, the US economy could very well be entering a slowdown phase. The US Federal Reserve is firmly committed to acting early in the business cycle to avoid a resurgence of inflation. The US Republican-dominated Congress is also likely to support measures that are designed to try to maintain low inflation growth in the US. There are some signs the economy is beginning to slow down. You've all heard about the number of rate increases in the US in the past 12 months, and the US unemployment rate did move up last month. The evidence is not clear at this point, but directionally it would look as though the US economy is approaching full capacity and its rate of growth is going to have to diminish.

So then we look at the other issues. We look at competitiveness.

#### 1600

Pardon me, I'd like to go back to the vulnerabilities. I mentioned the US economy. That was one thing. There's risk on interest rates. As you're aware, the Canadian interest rates are tied fairly closely to US rates and real interest rates are very high. To the extent that we're not able to get interest rates down, this discourages spending and obviously depresses economic growth.

The other area of vulnerability is fragile consumer confidence. I use the word "fragile" because I was interested in the comments by previous speakers about the level of confidence that consumers have. You can look at consumer confidence from month to month, quarter to quarter, year to year, you can look at it over the business cycle. Taking a longer view, looking back several decades and looking, for example, at per capita income, which is what people look at and experience and make their plans around, per capita income in the 1950s grew, I think, by about 27%; in the 1960s I think it grew by about 53%; in the 1970s it grew by about 42%; in the 1980s it grew by 8%, which was a dramatic collapse

from the previous three decades of performance. I think so far in 1994 it probably hasn't grown at all.

To the extent that consumers look at their longer-term projects and derive confidence from what they've experienced in the past, this has to be a significant factor affecting the overall expectations of consumers. I think that kind of expectation, the realistic expectation that consumers are facing, has to be translated somehow into government actions.

Turning to some of the key issues that we see, one of them is competitiveness. We've made numerous proposals in previous briefs around productivity and other types of measures and we have a few proposals in this brief dealing with the energy sector, where government and industry can work together to try to improve competitiveness.

We also see an issue in the size of government and the debt, which is an issue shared by many. We do not feel that it's possible to address the debt problem without somehow shrinking the size of government.

Another issue is budgets, the federal and Ontario budgets that are due. Will they deal with the deficit problem? Will they increase taxes?

There's also the issue of Quebec. We haven't addressed that here, obviously, but we hope there will be a resolution in Canada's favour, and a clear resolution.

In summary, with the economy, our feeling is that the economic recovery we all see can be sustained for a period of time, but the risks are quite substantial and the recovery could be in jeopardy. Clearly, the committee has to weigh carefully the advice it receives from all the people who appear before it, and the experts are not always right. We're all experts of one kind or another, and we can all be wrong. We seriously urge the committee to consider the risks that the provincial economy faces over the next few years in framing its recommendations, particularly on the fiscal front.

In a March 1990 report of the standing committee—that was prior to the last recession—the committee report stated, "All invited witnesses who appeared before the committee stressed that, while the rate of growth was moderating, the economy did not appear to be headed into a recession." Two months earlier, in our submission in January 1990, we had said, "Growth in the provincial economy is slowing.... There is a distinct possibility this descent to a so-called 'soft landing' could accelerate into a hard landing and produce an economic recession." So I think you would be wise to consider the range of advice and make your own mind up, based on the weight of the evidence, about where you think the economy is headed.

Turning to the fiscal situation, Ontario and federal budget deficits have been adding to the public debt at unprecedented rates. The Canadian public debt-to-GDP ratio, as you all well know by now, is second highest in the G-7 countries. Because of large government borrowing, domestic saving is insufficient to finance private sector investment. It's as simple as that. Canada and Ontario must therefore borrow large amounts of foreign funds, and the foreign component of the Canadian public debt is by far the highest in the G-7, at 44%, so we're

very vulnerable to investor sentiment abroad about the viability of our economic future.

Some have said that Canada and Ontario could hit a debt wall. What that means simply is that we quite suddenly would find ourselves in a position where we could not borrow the amounts of funds that we had been used to borrowing. That would mean that we would have to react in a crisis atmosphere and deal then with taxes and with public sector programs.

Another thought we'd like to leave with you is that even if budgets were balanced, the public debt-GDP ratio would continue to grow as long as the interest rate remained higher than the rate of growth in the nominal dollar GNP. All that means is that you have to reduce the debt if you want to solve the problem.

Another thought we deal with in our document is that behind all this fiscal problem is the reality that you have federal and provincial government debt, and that what ultimately is going to be needed is a new approach to what we call fiscal federalism—the C.D. Howe has recently written extensively on this topic—and there must be rational restructuring responsibilities and taxing powers to deal with the problem. We have heard some proposals from Ottawa and from Ontario. We call those piecemeal approaches; they're not going to solve the problem. And we'd like to see the restructuring eventually accomplished without increasing the tax load.

Our feeling is, after we reflected on the fiscal situation—and remember, we've done this I think honestly and we've done it objectively and we've done it for some years now—that legislation may be required to bring budgets under control and to reduce the debt. The Prime Minister of New Brunswick I believe is on record as saying that he is looking at introducing balanced budget legislation—

**Mr Wiseman:** No, he doesn't agree with it.

**Mr Jones:** He doesn't agree with it? Okay. The US Congress is presently examining and discussing balanced budget legislation. The Premier of Alberta has indicated that he is considering referendum-style approaches to addressing the problem.

What we're trying to indicate in here is that while such an approach is never popular, there are formulas—and I've included one in our handout—which are a fairly pragmatic approach to dealing with the problem. And unless you can find some other way, this is the way it's going to end up; you're going to have to do something along these lines to solve the problem.

The need for fiscal restraint has been evident to us as an association for some time. In January 1990—I won't read the quote, but basically we said there was simply no room in the 1990s for the kind of tax increases that we'd seen in the 1970s and 1980s and that therefore spending restraint was needed to get the deficit under control; otherwise, the deficit could soar to record highs. In our January 1990 submission we produced for the committee an analysis that looked at four scenarios, and we produced the chart you have, this one, which showed that under two quite reasonable scenarios, going from where we were in 1989-90, the deficit in 1994-95, the current



fiscal year, could be between about \$9.5 billion and \$10.5 billion. That's pretty close to where it is today, depending on whether you listen to the Provincial Auditor's estimate or the provincial Finance minister's.

I'd like to echo the comment of the Conference Board that we cannot afford to be caught with high deficits entering the next recession. We just took a look at the 1992-93 fiscal year. In 1990, the treasury put out some projections, a three-year projection at that time, and said that there would be a \$2.4-billion deficit in 1992-93. That turned out to be \$12 billion. In the numbers I've given you on this table, of the handout, you'll see the principal reason was because expenditures were a little bit higher than what had been projected but revenues were about \$9 billion less than what had been projected. That's because we entered the worst recession we've seen since—well, since anybody can remember, I guess. I wasn't there for the Great Depression.

The way we read this is, we all know that government revenues suffer cyclically during a recession. The problem is that at the end of fiscal 1992-93, there was no evidence of spending restraint—none at all. Two years on, the deficit stands, as I say, in the \$9-billion to \$10-billion range; \$40 billion has been added to the provincial debt, which you're all aware of; and interest payments have grown from 8.8% of revenues to 16.2%. Clearly, we came out of the recession, from a debt point of view, far worse than when we went into it. That's why we think that legislated solutions may be required.

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I'd now like to turn to something we do know something about, which is the natural gas industry in the Ontario economy. Gas plays a major role in the economic health of the province. You may not be aware of the fact that natural gas provides more energy than either oil or electricity to the provincial economy. The industry was a source of stability during the last recession when jobs were being lost. We created 18,000 man-years of employment on capital projects alone during that period.

We think and believe that the industry helps the competitiveness of the economy. We've identified areas in the document where we believe we could make more progress. If you look at the contribution of the natural gas industry, the real gas price today is lower than a decade ago. Gas customers will enjoy lower gas costs this year. We have introduced technologies that are helping to lower energy costs in environmentally preferred ways.

Just as an aside, you could contrast that with the situation at Ontario Hydro, where in fact they had very large increases in energy costs and had massive layoffs. We were able during that period to deliver to the provincial economy much more competitive energy costs and job creation. We think there are opportunities for the government and the industry to work together so that we can add to that contribution.

We've identified two areas, for example. One is cogeneration, which is simply the simultaneous production of thermal energy and electrical energy using natural gas; it's highly energy-efficient and cost-effective and environmentally beneficial relative to coal generation. The other is natural gas vehicles. Ontario has about 44%

of the stock of natural gas vehicles in Canada at the moment. There's a cluster of industries in southwestern Ontario, because basically the nucleus of development of natural gas vehicles in North America is presently here in southwestern Ontario. The industry would like to work with government to try to develop that potential, so that we get an export industry developed out of what we have now as a basic infrastructure.

Another thing that we've noted in our document that would help competitiveness is restructuring of the electricity market, and here there's no slight to Ontario Hydro. Ontario Hydro supports the notion that the electricity market should be opened up, needs to be restructured, and that the future lies in providing more competition in generation and wheeling power. We think that would be very helpful to widen the range of choice for energy consumers.

Finally, to the question of the environment and energy, we very much appreciate the fact that the Ontario government and the federal government have taken the approach of adopting voluntary initiatives on the part of industry so that we can produce cleaner and more viable environmental technologies and practices rather than having thrown at us from every angle economic instruments that could be damaging to the economy, such as carbon taxes.

What we'd like to do is leave you with the message that this industry would like to work with government to try to develop whatever potential we can find to help prepare the economy for the future.

Very quickly on our recommendations, basically what we say is:

Balance the budget while the economy is growing. Don't miss it this time around, because we missed it in the 1970s and the 1980s, and if we miss it in the 1990s we're going to be in a lot more trouble.

Implement a debt reduction program. If the government introduces new programs, it shouldn't do that unless it finds offsetting savings somewhere else in the system.

There should be no net tax increases.

The government should review its user-fee policies. Some of the companies in the Ontario natural gas industry face fee increases up to 16 times over three years, which is simply way beyond—I mean, we just don't comprehend why these are happening.

The government should encourage public debate on the future of fiscal federalism.

It should make more progress in reducing the barriers to internal trade.

We would hope the committee would support the Ontario Investment Service. We were involved in the creation and implementation of that service, and the importance of competitiveness to the economy is front and centre in the Ontario Investment Service. We believe it will be a useful instrument for helping to increase investor interest in Ontario, so we'd recommend your support of that.

We would like your support for the consultative approaches to environmental questions when it comes to energy, and we would like your endorsement of the fact that it would be good if government and the industry

could work together and see what we can do about improving competitiveness.

**Mr David Johnson:** I appreciate your information. I'm sure you know a great deal not only about natural gas but about the economy in general, and I appreciated your comments today.

Looking at the deficit, the Provincial Auditor has clearly indicated that the real deficit, what we're adding to the debt of the province of Ontario, is over \$10 billion this year, and that includes operating costs, that includes the capital costs, that includes money to crown corporations.

Now, starting from that deficit, which, I agree with you, we must eliminate—frankly, I have no concern with regard to balanced budget legislation. Many of the states in the United States have balanced budget legislation. Municipalities, including Metropolitan Toronto with a \$4-billion budget, which is not as big as the province of Ontario but nevertheless a big budget, have to balance their budgets each and every year.

However, how do we eliminate the deficit in the first instance? You've indicated in your brief that you expect the GDP to grow at 4.2% this year, 3.9% next year, and I think I heard you say that you expect the GDP to probably drop off at that point, with the United States perhaps having reached its peak and a slowdown at that point. Starting from a more than \$10-billion deficit, with a GDP that I would estimate would be in the 3% range over four or five years on average, is it possible, without significant expenditure reductions in the province of Ontario, to balance the budget, starting from a more than \$10-billion deficit?

**Mr Jones:** Not unless the economy puts in a very strong, sustained performance for a longer period of time than we're used to seeing.

**Mr David Johnson:** Is that even within the realm of possibility, the kind of growth we would need to eliminate a more than \$10-billion deficit?

**Mr Jones:** I think rather than talk about whether it's possible, you have to look at the risks. The odds are that it won't. I'm not saying it can't, but the odds are that it won't.

**Mr David Johnson:** Exactly. The odds are that it won't. And then to balance the budget, which is essential, as you've indicated, going into the next recession, expenditure reductions would certainly be required over the next few years to get that budget in order.

**Mr Jones:** That's correct.

**Mr David Johnson:** These would be fairly sizeable expenditure reductions. We're not looking at tinkering around the edges. Indeed, if you look at a budget that has doubled since 1985, from \$28 billion in 1985 to over \$55 billion today, increased by some \$27 billion or \$28 billion over a 10-year period, is it not feasible that there would be ample room within a budget that's increased by that sort of magnitude to find the kind of expenditure reductions that would be required to balance the budget?

**Mr Jones:** You would hope so. It will be painful for many people, but if we wait, the problem could be a lot worse down the road. Either we do it now and it's less

painful, or we do it some time in the future and it will be a lot worse, a lot more painful.

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**Mr Wiseman:** I'm interested in your non-utility generators, and I'm curious: At what megawatt level does it become economically feasible for cogeneration gas to be used? Have you done that kind of work? At the lowest end, not at—

**Mr Jones:** I think the smaller-size projects right now are economic, or can be economic. For example, we're developing the hospital market. The universities have been installing facilities. These are the smaller-sized facilities, often where the operator is changing existing capital plant, you know, wants to replace existing equipment. It really is, at the moment, only economic in what we call the low end of the scale, the load displacement cogeneration, and part of that is because of the way Ontario Hydro administers cogeneration. It will not accept purchased cogeneration at this time, as you know.

**Mr Wiseman:** That's because they have such a capacity and such a huge debt. They're not the only ones wrestling with that.

**Mr Jones:** Yes, they don't want stranded assets.

**Mr Wiseman:** And if they wind up having large sectors of the economy tipping out, they will never get their finances under control either.

That leads me to the next point. If cogeneration is allowed in a large area and then you get one area that has lower energy rates than another, then you've got a real problem in the economy, where industry will move and that kind of transfer will take place.

**Mr Jones:** I think you're going to see a debate on the whole question of the structure of the electricity market and the question of power pool and wheeling and all of that kind of stuff. That'll be a healthy debate, and as an industry we're kind of anxious to get started on the debate. We don't think, in many cases, consumers have to be disadvantaged at all. We think it's to the benefit of consumers.

**Mr Wiseman:** What kind of a job growth potential would you project in this area if there were some way to move forward in terms of this partnership that you're talking about? How many jobs do you think might be created?

**Mr Pinnington:** If you're moving from just cogeneration now to NGV and other technologies, I don't know that we're prepared with a specific number. There is a number in our text relative to every X millions of dollars of expenditure.

**Mr Jones:** If you're interested, we could get you some numbers.

**Mr Pinnington:** How many in the NGV industry alone?

**Mr Jones:** I can't remember how many jobs we have in the NGV industry.

**Mr Pinnington:** This is a small industry that's just really started up in the last eight or 10 years. I think it's something like 1,500 jobs directly within that industry, and Mr Jones had about 18,000 jobs over the period of



1988 to 1993 in development of the gas industry.

I think it's more than jobs, though. On the cogen side, it's a far more efficient use of energy. It's far more environmentally acceptable.

**Mr Wiseman:** That's one of the reasons I'm interested in. We've heard from—

**The Chair:** Mr Wiseman, we have to go on. I'm sorry.

**Mr Wiseman:** I'm out of time, and I couldn't ask about trucks and whether they've solved that problem with the—

**The Chair:** It won't be on Hansard, but you can ask later.

**Mr Phillips:** I've got a more general question. In terms of our energy cost in Ontario right now—I'm thinking of natural gas and electrical energy and other energy—what's the trend? I'm just thinking now of the competitiveness particularly of our industry. Can you be helpful to us in what's happened to cost to industry over the last five or six or seven years?

**Mr Pinnington:** I think we can quote the National Energy Board's recent documentation on the longer-term prospects for the price of natural gas, and the expectation is only nominal increases. There is something like a 15-year supply of natural gas at present rates of offtake. That includes domestic and export gas. The assumption is that we will continue. This is conventional gas that we continue to produce at about the same cost we're at.

**Mr Phillips:** I'm interested in this: our competitiveness versus neighbours, the US neighbours and what not. Are we getting more competitive, less competitive, on energy costs in Ontario?

**Mr Pinnington:** The very fact that we've almost quadrupled our exports of gas to the United States would suggest to you that we have a substantial resource of low-cost gas. Just to maybe put some other numbers—

**Mr Phillips:** The interesting number you gave us today was that you supply more energy than electrical power—

**Mr Pinnington:** That's correct.

**Mr Phillips:** —and what other power? Gas power?

**Mr Jones:** Oil.

**Mr Phillips:** Oil. Just in terms of comparison versus what someone would be paying in a factory in Michigan, in Ohio—

**Mr Jones:** We've put together data which we're supplying to the Ontario Investment Service on the system and we'll be happy to share that with you.

**Mr Phillips:** Are we lower, higher?

**Mr Pinnington:** Absolutely lower.

**Mr Phillips:** And are we trending lower?

**Mr Jones:** I don't know about the trend.

**Mr Pinnington:** We've been steady for—I think the term we're using is no real growth in the last 10 years. On average, the price of natural gas to an industrial customer in Ontario now is probably somewhere around the \$3 range to a large industrial account. I would suggest to you it's probably at least \$1 more for 1,000

cubic feet to customers in the United States. We enjoy a substantially lower price for natural gas.

**Mr Phillips:** Yes, you are the largest supplier of energy, then that's a competitive advantage for us, I gather.

**Mr Pinnington:** Possibly another comparison, and it is an Ontario comparison, but home heating—the average residential customer—the differential between natural gas and oil was about 32% more expensive and gas is approaching 60% more expensive.

**Mr Jones:** You mean electricity.

**Mr Pinnington:** Electricity, yes. Electricity is about 60% more expensive than natural gas, so there is just no question that natural gas is a very economic fuel and also a very positive environmental position.

**The Chair:** I'd like to thank the Ontario Natural Gas Association for making its presentation before the committee this afternoon.

#### CANADIAN TAX FOUNDATION

**The Chair:** The next presentation this afternoon is by the Canadian Tax Foundation. Please let us know who is who.

**Mr Tom McDonnell:** Thank you, Mr Chairman. My name is Tom McDonnell and I'm the director of the foundation. David Perry is with me today and David is our senior research associate.

Your clerk suggested that we might make a formal presentation of about 15 minutes, leaving time in the balance of the allotted time for questions, should there be any, and I propose to stick to that schedule. I think the clerk has distributed copies of our submission and you will find attached to that a couple of charts with some information on comparative tax rates in the OECD countries.

A word, if I may, about the Canadian Tax Foundation. We are an independent research organization committed to impartial public education rather than policy advocacy. We try to provide a forum for expert analysis and discussion of the Canadian tax system both by its members and others. We've been in existence for 50 years; 1995 is the 50th anniversary of the establishment of the foundation. Over those 50 years, our research program has provided the benefits of what we believe to be the best academic investigation of tax and public finance matters, all with a view of fostering the best tax system for Canada.

In our submission to you today we will not address expenditure policy or the issue of debt and deficit reduction, obviously important issues but ones which, given the independent nature of our organization, we do not feel we should comment on. We will also not propose particular tax policies for the province in the next fiscal year.

We are an impartial body; we do not engage in lobbying or policy advocacy. We hope, however, to call to your attention some of the underlying problems that we think will shape provincial tax policy over the next six months, and the comments that follow do not specifically address the situation only in Ontario but reflect our view of the situation facing all provinces as they face their 1995 budgets.

Over the past year, it has become almost trite, I think, to warn against tax increases as a way of addressing the federal and provincial deficit problems. What perhaps is surprising, and I think worth noting, is the extent to which moderate observers have stressed their concerns about the advisability of such a deficit reduction policy. I think it's clear that there is a widespread feeling that the overall tax burden should go no higher. Leaving aside for a moment the implications of this sentiment for budgetary policy, let me examine what we see as the factual basis for what we're calling tax fatigue.

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My comments for the next moment or two will address the period 1980 to 1992 and 1993. What we see during that period is that after more than a decade of regular tax increases, and these by all levels of government, Canada's overall tax burden as a percentage of GDP has increased by about 23%. During that period, federal taxes rose by about 19% and provincial and local government taxes rose by about 27%.

At the same time as we were experiencing substantial tax increases, no new major spending programs had been introduced. Indeed, a number of existing programs have either been curtailed or have been cut back significantly. Thus, to the average Canadian, his or her tax burden has gone up while at the same time services have gone down. And all this apparently for naught, because apparently federal and provincial deficits are now substantially higher than they were in 1980.

There are, we think, sound technical reasons why deficits in fact have gone up—these include rising interest costs and the two severe recessions in the intervening years—but these reasons, I think, to a large extent have been lost on the general public. They have clearly soured on current tax policy and, as importantly, those who form it. I think the question facing us as we enter budget season in 1995 is, how strong and how pervasive is this sense of tax fatigue and how is it going to affect tax policy for this year and beyond?

This brings me to the question of limits on taxation. The determination of the maximum tax burden is not an exact science, but there are some indicators that we may have reached that level. In 1992, the foundation published an article in its Canadian Tax Journal and the author identified three main guidelines to identify the critical limits to taxation. These were: First, we're at the limit when governments tend to incur deficits rather than increasing taxes; secondly, we're getting to the limit when governments tend to use non-tax resources such as user charges and lotteries rather than increasing taxes; and, thirdly, we're at the limit when we find more open public opposition to tax increases. I invite you to reflect on recent experience. It would seem to me, by all three measures, we are very close to the limit.

Quickly, two examples: In 1993 in British Columbia, a proposed surtax on property taxes for more expensive properties was part of a budget. The strength and the breadth of the outcry against that led to the withdrawal of that proposal.

Then this committee is familiar with the problems of the underground economy. It studied it a year or so ago.

The underground economy seems to be rising and to some extent, at least in terms of popular perception, it's suggested that this is due to the GST because it was seen by many as a large tax grab, which in our view it was not, and to the fact that it seemed to be fatally flawed in design, and again in our view it was not. But here, in our view, facts are not necessarily determinative. The important thing is perception. What the GST did was crystallize attitudes to taxation, drawing the average Canadian's attention to taxes every time he or she opened wallet or purse.

So what does this mean for tax policy options? Well, the sense of tax fatigue and the prospect of antipathy to further tax increases, in our view, severely restricts those options for provincial budgetary and tax policy in 1995. If you will allow me, for just a couple of minutes I'd like to review briefly the main tax sources available to the province of Ontario and our assessment of how this concept of tax fatigue may affect your options with respect to those sources.

First, the personal income tax: It seems to us that the prospect for general acceptance of personal income tax increases is, to put it mildly, not rosy. Canadian income taxes, as I'm sure you've heard, amounted to about 14.5% of GDP in 1992, and this is the highest percentage of all G-7 countries. This ratio was also higher than in all OECD countries, with the exception of the Scandinavian countries and New Zealand. But I think most importantly for Canadian and Ontario tax policy, we are well above the ratio in the United States of 10.1%.

The problem with higher tax rates is that they make deductions more valuable and cheating more profitable, thus enhancing the attractiveness of tax avoidance and tax evasion. As a consequence, the personal income tax system offers, in our view, little relief for provincial treasurers.

But what about corporate income taxes? Contrary to some popular belief, corporate income taxes in Canada are well below the level in other OECD countries. However, they're only slightly below our major trading partner and competitor in the United States. Our collections—and I emphasize "collections"; I'm not talking about tax rates here—of taxes on corporate income were equivalent to about 1.8% of GDP. The OECD average is about 2.5%, so you can see we're quite a bit below it, but the US ratio is about 2.1%. However, despite these figures, we think that here in Canada if anything there's even less room to manoeuvre on the corporate side than on the personal income tax side.

The problem here is that with an age of full mobility of capital and extended free trade zones, companies are now freer than ever to choose the most hospitable sites for new or expanded facilities. Of course, of equal concern is the ability of multinationals to use transfer pricing to minimize the tax burden suffered in high-tax jurisdictions. While some public opinion would seem to favour resort to higher corporate income taxes as a solution or partial solution to the problem, we think the reality is that such a policy in the borderless society in which we now live and operate would be counter-productive.



Let me refer to another source of revenue, social security levies. Now, this is an area in which jurisdiction is divided between the federal power and the provincial power, so some of what I say will not be directly relevant to Ontario. Taken together, social security levels in Canada in 1992 were about 6.0% of GDP, again below the OECD average of about 9.9% and even below comparable figures in the United States, which we have at 8.8%.

These are levies basically for unemployment insurance, Canada and Quebec pension plans and workers' compensation, so it's only the workers' compensation levies that really fall within the purview of the province. But all of these together are seen today as job killers. At a time when policymakers are concerned, and rightly concerned, with finding work for the large number of unemployed, any move that seems to make it more expensive to hire new employees will not likely meet with public approval.

A word about property tax: Property taxes in Canada are the highest in all of the OECD countries, 4% of GDP in contrast to an average of about 1.8% for the 24 member countries.

The tax protest movement that we've seen on the rise in Canada really began, we think, because of the concern over rising property taxes. They certainly continue to be a sore point in many provinces, this one included. As a consequence, provincial policies that force local governments to increase their property tax burdens will probably meet with very spirited resistance.

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Consumption taxes: Again, contrary to some perceptions, consumption taxes in Canada are low by comparison with most OECD countries, but again, and I emphasize this, well above comparable US figures. Even if there is tax room, if you will, in the general sales tax system for increases, the present situation in which we find ourselves in Canada, where most transactions are subject to independent and different federal and provincial general sales taxes, makes a general increase in these taxes inappropriate this time, because both levels of government, as you know, are discussing possible reforms to this two-tiered system.

This is a unique system in industrial countries. It's our view at the foundation that the resolution of the current impasse between the federal and provincial levels on this consumption tax issue is vital, so any significant move at the provincial level to change the base or extend the tax during these delicate times would be unadvised.

This broad discussion shows, we think, how narrow has become the room for provincial governments to raise additional taxes without creating tension that could harm their ability to govern. Widespread discontent with tax policies would weaken support for what we believe are necessary expenditure reduction measures.

It's appropriate, I think, to say a word about non-income taxes on business. We have some specific concerns about the direction of provincial tax policy in the rest of this decade. We have seen the increased use of business taxes not related to income, especially capital and payroll taxes. They're popular because they tend to

provide a more stable revenue base than the corporate income tax system and they often serve as a proxy for a minimum corporate tax.

But over the past four years, seven provinces have increased their capital taxes on corporations, three have introduced or raised their general payroll taxes, and these in addition to the increases imposed by workers' compensation boards, the Canada and Quebec pension plans and the unemployment insurance program.

While the ultimate incidence of these types of taxes may rest primarily on shareholders and employees, their immediate impact is to reduce the competitive advantage of Canadian businesses in domestic and international markets.

In addition to that, these specific types of taxes also have an uneven incidence across industry sectors, so companies that are highly labour or capital intensive are particularly hard hit and these taxes form a major part of their costs. Increases in these taxes may also be inappropriate at this time because, again, the federal and provincial governments are still negotiating the deductibility of these taxes under the Income Tax Act.

Where do we turn? Let me say a word about special provincial incentives, because this is another troubling trend emerging from provincial budgets over the past few years. As provinces strive to attract new businesses or new investment, they are turning to tax incentives. We did a brief review of provincial budgets over the last four years and it shows at least 52 special incentive measures introduced or significantly expanded. Another illustration is the extent to which the provinces have, in the same period, lowered tax rates for small business and medium-sized businesses.

While such incentives may initially be successful in attracting new businesses, we think they must be used with caution. The smaller, so-called have-not provinces have introduced most of the concessions to date. They court a similar response from the larger provinces that, frankly, have more resources to outbid them for new investment.

Ontario provincial economic policy, as we see it, has long contained an implicit sense of restraint in engaging in direct competition between the large and small provinces. Frankly, we hope this can continue. It would be counterproductive in the extreme, we think, to have a large province like Ontario or British Columbia, for example, matching or attempting to outdo the tax incentives offered by Newfoundland or Nova Scotia. It would also weaken the tax system by shifting the burden increasingly to individuals and existing businesses.

We think any provincial budget must be designed to relieve the pressure on budgetary deficits, but without destroying the fragile economic recovery that we have recently enjoyed. It must also enhance the public sense of the legitimacy of government and the tax system. To weaken either would reduce the strength of our system of voluntary tax compliance. Taking it all together, the 1995 provincial budgets must tread a very fine line and we think with little room to manoeuvre on the tax side.

It's fortunate that the economic recovery is producing

additional tax revenue and reducing the pressure on social assistance spending. We think this presents an ideal opportunity to reduce the deficit without imposing an additional tax burden on provincial taxpayers, who, as I guess all of us being taxpayers, are already feeling overburdened by our other responsibilities or roles as federal taxpayers and municipal taxpayers.

That concludes my formal remarks. David and I would be pleased to try to answer any questions you might have.

**Mr Wiseman:** I'm very interested in some of the work that you've done. I'd like you to comment, if you could. I come from a high-growth area where we have urban sprawl and where we have huge pressures for municipalities to put into place recreation complexes, where we have pressures on the provincial government to add additions to hospitals and to put in additional beds all throughout the region of Durham.

This means that there are more kids in the school, more teachers need to be hired. We keep getting told that's good for us. It's so good for me that my property taxes have doubled in eight years. Have you done any work in the area of trying to—you see, all I've got is anecdotal evidence that urban sprawl causes me to have my taxes increased. Have you any data that you've done and any work that you've done that would either refute that or prove it?

**Mr David Perry:** There's not very much recent stuff on the effect of regional development—urban sprawl, if you wish—or straight city development on the tax rolls. You're not alone in seeing your tax bills go up, though. If you're looking at the provincial aggregates for personal income tax, there's been a significant growth, especially in the last four or five years. This is the downloading that goes from the federal government to the provincial government, from the provincial to the local.

The local governments have found themselves facing more responsibilities and a greater proportion of existing responsibilities than they had in the past. In Ontario, the increase in overall tax burden has been significant, from a relatively low 3.3 in 1977, and it was virtually flat until about the mid-1980s, at which point it started to rise. So we've gone from 3.3 to 4.3. That's a 33% increase, and that's really over the past 10 years, I guess, now. That's downloading. There's a problem with the elasticity of the base. You know, it doesn't respond to inflation, so the rates have to go up as local governments are coping with inflation, plus the fact that local governments have been under some form of expenditure restraint for a long time and the ability of local governments to trim and to cut expenditures back to meet their resources is much more limited now because there's less fat and there's more muscle that's being cut.

1650

**Mr Phillips:** I too thank the group for its thoughtful presentation. I guess two questions, just in case I don't get them both in. The one is, any sense of whether in the mix of tax one is out of whack with the other? I listened, I thought, as carefully as I could because I kept thinking on the next page there would be one.

The second one: I don't want to draw you into a

partisan debate, but you're experts in this area. It's no secret the Conservative Party is proposing a 30% reduction in the level of personal income tax, which is an interesting proposal—but just any advice that you care to give us on whether, if you are looking at the tax mix, that's the area that we probably should be looking at? If you choose not to comment on the second one, I could understand that.

**Mr McDonnell:** Let me pick up your invitation on the second one and then I'll ask David to make a comment, because there is some evidence as to where the tax mix is in Ontario relative to our trading and OECD partners.

We would be very reluctant to be on the record as recommending any particular policy, and that reflects our position as an independent body. I think at this stage we will say that we recognize the difficult political choices, but we are not in a position to directly help you with that. David, would you comment on where we're going on the tax mix?

**Mr Perry:** Yes. The international comparisons that are enclosed with our brief would seem to indicate that property taxes and personal income taxes are at least as high as you want to go, if not too high, and that should be the area where you'd see reductions, and that social securities, which are virtually off limits for the province, and consumption taxes would be the areas to concentrate on.

You can see that happening in the Peterson committee report of last December where they reduced the surtax a little bit. So they're lowering income taxes and they picked up the money from the gasoline tax. Ideally, if you look at all the figures we presented, what you do is raise the rates on WCB to the point where they're generating a profit and use that profit, turn it back to the provincial treasury and lower income tax rates. But that's not the sort of thing that is really reasonable policy.

The problem is that you either have high tax levels or you have some other problems, like the reform of the sales tax system. The sales tax system is relatively low compared to most of our trading partners, except the US. That's really off limits because of the issue of GST versus retail sales tax and the hope that something may be done to resolve that issue.

**Mr Carr:** I think, to explain, the reason we've called for the tax cuts is very clear, if you look at other jurisdictions that we have to be competitive with. Our tax rate cut that we're calling for will make us the lowest-taxed province in Canada, marginally lower than Alberta, with the 30% tax cut. We've gone up higher and higher over the last little while and we recognize it's only personal income tax.

We get 19% of our revenue from the retail sales tax, \$8.9 billion out of the \$45 billion. So even if we become competitive, marginally better than Alberta on the personal income tax, we still have loads of revenue, 19% of it coming in from the retail sales tax, which Alberta does not. The tax cuts that we're proposing are only trying to make us competitive with other jurisdictions. As you know, we're not even talking about New Jersey, where Governor Whitman has come in with a 30% tax reduction.



So the reason for the tax cuts isn't because we, as consumers, believe that we need to have a tax cut. The reason we're doing it is we need to be competitive with other jurisdictions. It doesn't even have anything to do with fairness, because if you asked anybody in the province, they'd think they would be overtaxed from a fairness issue. We believe that lower taxes will mean more jobs, and the problem we have is that we're uncompetitive in our tax structure—and we can get into who's to blame and so on; that doesn't help. That's why we need a tax cut.

I recognize the fact that you aren't going to be political and say you want to do that, but I want to explain to you where the tax situation stands. Now, as I've laid that out to you, am I wrong? Because I know you're basically in an education mode of trying to educate people, not, say, politically, although I'd love to hear how you'd vote next time. From the standpoint of what I've laid out to you, are there any wrong assumptions that I've made?

**Mr McDonnell:** Let me make a brief and quick comment on that and then again I will invite David to be a little more technical. In this area, it seems to us, you're really talking about political choices, and political choices are ones that reasonable people will differ on. We understand, I think, where your party is coming from with its proposals and why you feel the way you do. The difficulty we have in engaging in the debate, as I indicated in response to the first question, is that we see our role as laying out the background, the numbers and inviting those who are engaging in the political debate to do it on a rational basis.

**Mr Carr:** I see.

**Mr McDonnell:** Beyond that it's inappropriate for us to get much further into the actual debate as to what those choices might be. David, do you want to add to that?

**Mr Perry:** One of the things about tax mix which touches on what Mr Phillips said as well is that you get a different incidence from different kinds of tax. We have

two studies in a recent tax journal on the actual incidence of Canadian taxes. They're slightly progressive when you look at everything combined, and the reason they're slightly progressive is because of the personal income tax. The others are either flat or regressive. The less weight you put on the income tax and the more weight you put on something like a retail sales tax, the more you risk flattening out the distribution more than you might want to.

The other thing is that the retail sales tax, if it becomes relatively more important, would beg more measures that would fine-tune the incidence. So you may want to, for instance, significantly increase the refundable credit that Ontario provides for the retail sales tax. You may want to change the base of it.

**Mrs Haslam:** I'm sorry. I can't hear. Mr Chair, I can barely hear that last sentence.

**Mr Perry:** I'm sorry. It's a question of how you alter the tax incidence, and as I said, we have two studies in the Canadian Tax Journal that show that our system is overall, all three levels, only moderately progressive, and the main tax that provides that progressivity, the main tax that helps at the bottom end, is the personal income tax. As you change the weight and as you make retail sales tax more important, the danger is you're changing the overall incidence of the tax, and then you have to look at changing the retail sales tax through increasing the refundable tax credit or through changing the base to somehow restore the degree of progressivity that you want in the tax system. And that progressivity is basically a political and a community decision. It's not a technical decision in any way.

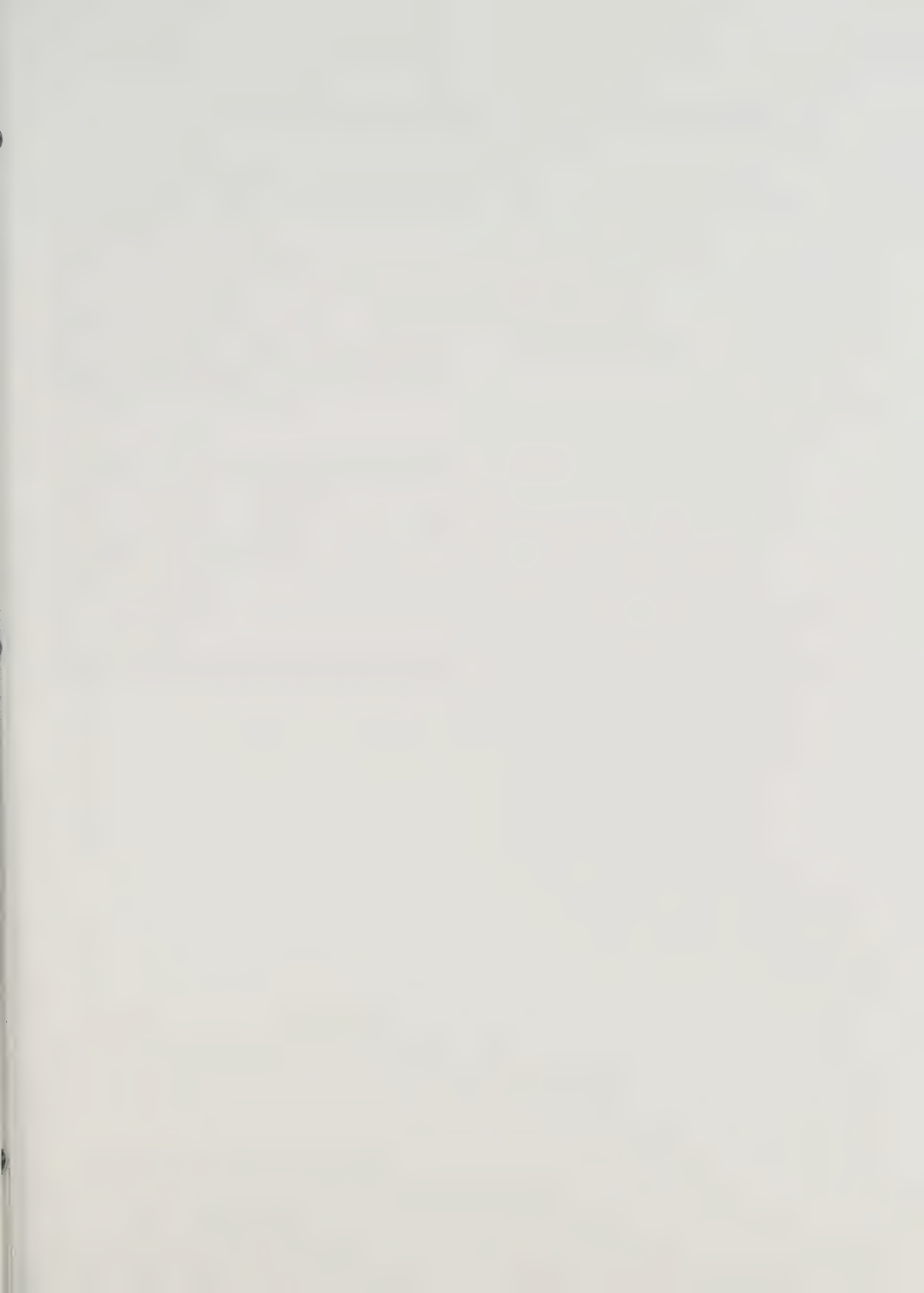
**The Chair:** I'd like to thank the Canadian Tax Foundation for making its presentation before the committee this afternoon.

This committee stands adjourned until 10 am tomorrow morning.

*The committed adjourned at 1659.*











## STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

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### **Substitutions present/ Membres remplaçants présents:**

Malkowski, Gary (York East/-Est ND) for Mr Abel

### **Also taking part / Autres participants et participantes:**

Cunningham, Dianne (London North/-Nord PC)

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### **Staff / Personnel:**

Campbell, Elaine, research officer, Legislative Research Service

McLellan, Ray, research officer, Legislative Research Service

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ISSN 1180-4386

## Legislative Assembly of Ontario

Third Intercession, 35th Parliament

## Assemblée législative de l'Ontario

Troisième intersession, 35<sup>e</sup> législature

# Official Report of Debates (Hansard)

Wednesday 8 February 1995

# Journal des débats (Hansard)

Mercredi 8 février 1995

**Standing committee on  
finance and economic affairs**

**Comité permanent des finances  
et des affaires économiques**

Pre-budget consultations

Consultations prébudgétaires



Chair: Paul R. Johnson  
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## LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON  
FINANCE AND ECONOMIC AFFAIRS

Wednesday 8 February 1995

## ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

COMITÉ PERMANENT DES FINANCES  
ET DES AFFAIRES ÉCONOMIQUES

Mercredi 8 février 1995

*The committee met at 1003 in room 151.*

## PRE-BUDGET CONSULTATIONS

## ASSOCIATION OF CANADIAN DISTILLERS

**The Chair (Mr Paul R. Johnson):** Our first presentation this morning is by the Association of Canadian Distillers. If you gentlemen would introduce yourselves for the purposes of the committee members and for Hansard, I'll remind you that you have 30 minutes within which to make your presentation and field questions from the committee members. Please proceed.

**Mr Ron Veilleux:** I'm Ron Veilleux, president of the Association of Canadian Distillers. Mr Paul Clinton is president and chief executive officer of Gilbey Canada; Richard Fitzgerald is president and chief executive officer of United Distillers and also the chairman of the board of the association; Harold Ferguson is general manager of Canadian Mist in Collingwood. Thank you for the invitation to come back and address your committee.

The problem facing our industry is unique. There are solutions to that problem and today I want to concentrate on the solutions. I will not take you through the brief in front of you, but refer to the key pages dealing with the solution. The pages are numbered at the bottom in the middle of the page.

Our industry in Ontario and in Canada is on the endangered species list. We would accept this situation if the market were not there; we would accept this situation if we were not competitive on the world market. But there is a market and we are competitive on the world market. The proof? If you go to page 18 of your presentation, the LCBO still sells on a yearly basis over \$1 billion worth of our products. However, an increasing number of Ontarians prefer to purchase their products outside the LCBO store network. They prefer the black market.

Proof that we are competitive? If you look on the next page, page 19, our industry exports over \$650 million of finished goods every year and \$370 million of this \$650 million comes from this province, so we are competitive, and the Canadian dollar at the present level makes our industry even more competitive. We are an industry on the endangered species list because Ontarians are simply refusing to pay the 83% tax imposed on our products. This leads to a growing underground economy, and every day in the press there is evidence to that effect.

I would like to leave with you two pieces. The first one, and I've given copies to the clerk, is the front-page story of the Ottawa Citizen for January 26, 1995. This story clearly demonstrates the problem we're facing in

this province and in this country on a daily basis. The second is one that you probably have seen. Its title is "Renegade Nation," and it's an excerpt from Men's Journal of December 1994-January 1995. I would urge you to read this story if you have not read it already. It clearly demonstrates what is occurring in our country today.

Both stories are appalling but true, and they are repeated almost every day somewhere in this province, somewhere in this country. This is what is killing our industry and this is why we are on the endangered species list.

The solution? I'd like to point to page 5 of your presentation. Last year, you will recall, I recommended a four-pronged approach: improve enforcement profile, increase penalties, educate the public about the potential health hazards of smuggling or contraband alcohol and remove the incentive to smuggle by reducing taxes.

The province of Ontario has done a lot to improve enforcement and to apply stricter penalties. There is a tremendous amount of cooperation between the province and the federal forces. Little has been done to warn the public about the potential negative health effects of smuggled goods, and this must change. We need your help to warn Ontarians of the sad effects of smuggled goods.

Nothing has been done to deal with the tax issue. I will now propose a solution to the tax problem. This solution—and I would like to underline here—if applied, will have no impact whatsoever on the federal or provincial government revenue. It is a revenue-neutral solution.

To do so, I would like you to turn to page 32 of your presentation. I would like to point out before I explain this table that the problem we have been facing over the last two years is the following: We approached the federal government to do something about the inequitable taxes imposed on spirits, wine and beer. The feds are telling us every day, "It's not our problem; it's a provincial problem." We come and see the province and other provinces—this is not unique to Ontario; all provinces are the same—and we are being told: "It's not our problem. Go and see the feds." While the ball goes back and forth between the feds and the provinces, our industry is losing jobs, it's closing plants and it's on the endangered species list. Nothing is being done. We believe this is irresponsible; it's not acceptable.

Let's go back to page 32, to the federal excise duty. This table demonstrates the excise duty imposed on beverage alcohol today. As you can see, spirits are

imposed at \$11.07 per litre of absolute alcohol, wine is imposed at \$4.27 per litre of absolute alcohol and beer is imposed at \$5.60 per litre of absolute alcohol.

#### 1010

What have we done? We've added all of these federal taxes and we lumped them together to determine how much the federal government is getting from beverage alcohol. Then we've divided that amount of dollars by the litres of absolute alcohol sold in this country, and the result is the line which says a uniform excise rate of \$6.45 per litre of absolute alcohol.

If the government of Canada tomorrow or today would apply this tax equally, all beverage alcohol products would be taxed on an equal basis and the federal government would be revenue-neutral. This is what we've been proposing federally and we hope, by the time I get you to the end of this presentation, that you as a committee will support us to get that level playing field at the federal level.

I would like now to turn to page 36 to show the effects of this level playing field of this federal excise duty. Page 36 is titled "Ontario Retail Price Structure for Spirits: Current and Proposed." On the left side you have the current pricing structure for Ontario and you can see under the manufacturer's price there's this federal excise duty of \$3.32 per 750 millilitre or per 26-ouncer. This is the tax today. This is equivalent to the \$11.07 per litre of absolute alcohol.

Now, if we go to proposal A, where you can see that the \$3.32 is lowered to \$1.94, this is the amount of federal tax which would be imposed on a bottle if the federal forces decided tomorrow to level the playing field on the excise duty, remember, with revenue neutral.

What's interesting here is that by lowering that federal tax, if you go down the line to the next black block, on the consumer price, the consumer price in Ontario would be lowered to \$15.49. Why is it so? It is so because all of these lines are taxes on taxes on taxes. There's a percentage of a tax over a percentage of a tax over a percentage of a tax. This cascading effect gives these results.

So without any action whatsoever by Ontario, only a level playing field at the federal level, the price would go down to \$15.49. I'd like to remind you that the smuggled goods equivalent to this price is \$13. On the black market you can buy a bottle at \$13. By levelling the playing field at the federal level, your price would go down to \$15.49.

I'd like to point out the two lines below the \$15.49. You can see that the federal share would go down from \$4.46 to \$2.85, but we've demonstrated that the impact would be zero, revenue-neutral federally. Provincially, your provincial share would go from \$11.54 to \$9.24, but look at the note which is attached to the \$9.24 below. It says, "To remain revenue-neutral 53%...of the black market"—in Ontario—"must be recovered." We strongly believe that this is an achievable target. Half of the black market coming back to the legal market: We believe it can be achieved.

Why? It can be achieved because people, first of all, in

Ontario prefer to be legal. They prefer to buy something that has been produced under strict control, meeting norms, standards. People prefer to come back into the legal system because it does contribute to roads, hospitals, schools in Ontario. The black market does not.

This is important, but in order to achieve this, I think we will also need some help from the LCBO. The LCBO would have to launch some marketing exercise to tell Ontarians that they should come back into the legal system. At the same time, if the Ministry of Health could come out and say it is irresponsible, totally dangerous and you're playing Russian roulette with your health if you are drinking illegal goods, that would certainly force, or help, a lot of Ontarians back into the legal system.

We need your help, ladies and gentlemen, Mr Chairman, to convince the federal government to level the playing field so that all beverage alcohol products are taxed equally at the federal level, giving revenue-neutral results and helping Ontario to remain revenue-neutral, but most importantly, to save the 3,800 jobs still available in this industry, with the \$800 million attached to these jobs—this is grain, this is bottles, this is labels, this is marketing and so on—and the \$360 million in export goods that are going out of this province year after year. That's what will be saved. So we need your help.

I have put a poster here and it says, "Here's to the deficit." Why this poster? The focus federally is uniquely on the deficit. While this goes on, no one is interested in dealing with our problem, even if there are compelling reasons to do so. We can toast the deficit; we can all agree that the deficit must be managed, and we agree that it must be managed, but even in the context of managing the deficit we cannot totally forget industries such as ours that are on the endangered species list. We need your help to convince the feds to act and act quickly.

**Mr Monte Kwinter (Wilson Heights):** Thank you very much. I'm very sympathetic to your problem. As you know, I'm a former Minister of Consumer and Commercial Relations and I have always had difficulty with the concept that alcohol is alcohol is alcohol and whether it's beer or wine or spirits, it's the same alcohol.

I think there's a problem that your industry hasn't addressed properly and maybe the LCBO hasn't addressed properly, and that is that there's a perception by the general public that somehow or other spirits are more alcohol-content prone than beer or wine. I think that is a problem. I also think there's no question that with the high tax—and we have a perfect example with the cigarette industry. As a matter of fact, just today I'm sure most members, if they've seen their mail, received correspondence from the tobacco manufacturers' association talking about the difference in its results as a result of lowering the tax and eliminating the smuggling on cigarettes. So as I say, I'm very sympathetic and I think that's something we should look at.

But I wanted to ask you something else and that is the change in drinking patterns. Notwithstanding the tax issue, and I understand the tax issue is a problem, but I know that at the time I had responsibility for the industry, sort of the white goods were going up and the dark goods were going down. What has happened with that? Is that



continuing? Is there a change in consumer preferences for alcoholic beverages, and how is that affecting your industry?

**Mr Veilleux:** I will partially answer the question and ask my colleagues to continue. There has been a significant change; you are right. Our surveys—and these gentlemen all do surveys around the world and in Canada in particular—indicate that consumers do consume about 20% less alcohol than they did a decade ago. So the volumes have gone down significantly, and we accept that that is due to health concerns, people's lifestyle changes, aging population, and it's all true. But the legal sales in the same period of time have gone down 46% in Ontario, so this is why we have the significant problem.

**Mr Richard Fitzgerald:** Yes, Mr Kwinter, in reference to your comment on white spirits versus brown spirits, generally speaking, the brown spirits category rate of decline has been greater than the white spirits, such as gins, vodkas and so on. But I think the greater message in all of it is on page 20 of the presentation that we distributed to everyone, which basically shows the interaction between spirits, beer and wine, and your earlier comment on the message that alcohol is alcohol is alcohol.

1020

I think one of the things that we're trying to underline today and reinforce and again ask for your help on is the treatment of the alcohol within beer, wine and spirits equally. Regardless of whether they're brewed, vinified or distilled, they're all alcohol and basically our proposal to your earlier comment is that the various makers of laws across the land should treat beverage alcohol in all regards in the same fashion. If that were taken as such, that chart and the significant decline in spirits you see on page 20 would in fact be not anywhere as significant as it is and the lines would be more in line with what you see for beer and wine at the top of the chart.

**Mr Kwinter:** If I could just refer to that chart, just to go back to my earlier comment, how much of that decline, compared to beer and wine, is due to the tax and how much is due to the change in consumer preference?

**Mr Veilleux:** We believe, Mr Kwinter, that 20% is attributable to lifestyle, people being concerned about health and so on. The legal sales have gone down 46%, so this is an index. If you look at 100, the curve in 1994 goes down to minus 46, so it should go down to about 50-something.

I would say about 20% of that decline is lifestyle and the balance, 26% up to maybe sometimes 28%, is really the black market and this is why in Ontario the LCBO seems to indicate that about a third of the sales are really illegal; in Quebec, it's half.

**Mr Gerry Phillips (Scarborough-Agincourt):** One of the things I worry about with your industry is just that you are an enormous exporter of world products. You're one of the industries that has brand names that are world brand names and I gather that the number we should look at for exports is on page 19. Is this the way I should look at this thing, that 80% of the exports are spirits? What does that mean to Ontario in terms of both jobs and of

revenue? Has the industry done any estimate of the value of those exports to Ontario?

**Mr Veilleux:** Mr Phillips, I will answer that then I'll ask Mr Ferguson also to add to this response. I do not have the precise numbers, but I think last year for the first time the export numbers became larger than the domestic numbers. I think last year, 51% or 52% of the material produced in Ontario was exported while 48% was consumed locally. It's the first time in our history that this is the case and I think this year is going to be about the same, maybe a bit larger.

So therefore, it would be, I guess, fair to assume that half the jobs in Ontario are totally linked to exports. Half the grain and the corn and the material that we buy locally would be totally linked to that business.

**Mr Harold Ferguson:** I'd just like to echo Ron's comments. The export business certainly is important to the industry generally; to Canadian Mist Distillers, it is fundamental. We exist in Collingwood to export. The issue that Ron brings up with regard to adding value and what you've alluded to, Mr Phillips, is we're adding value to agricultural products, to creating high-paying manufacturing jobs, and given the fact that most tax streams or many tax streams are payroll-based, obviously it means a lot from the tax stream point of view or revenue from the government.

**Mr David Johnson (Don Mills):** Your industry must be the most visible example that I can think of of what happens when taxes become unreasonable. Just looking down on the sheets, on page 36 we see federal taxes, provincial taxes, environmental taxes, GST and PST. I don't see municipal taxes in there. Are municipal taxes included in the manufacturer's price or are they rolled?

**Mr Veilleux:** Yes.

**Mr David Johnson:** So in actual fact does that 83% include municipal taxes?

**Mr Veilleux:** Yes, it does. But I'd like to point out that some years ago, the municipal taxes on our products were unfair and that has been corrected.

**Mr Paul Clinton:** Depending on the location of the facility, the property taxes can be extremely punitive as well in the general Ontario area, so that's also coming to be a great concern to manufacturers such as ourselves.

**Mr David Johnson:** But 83% of the end price is consumed in taxes and the property taxes are included in the 83% as well.

**Mr Veilleux:** That's right.

**Mr David Johnson:** Certainly what happens, in general, is that when taxes go up the black market becomes a factor, jobs are lost. Over 4,000 jobs have been lost in your industry; 3,800 remain and are at peril. It's no secret that when prices are jacked up artificially because of taxes, people look for alternative means to obtain that product at a lower cost, and that's precisely what's happening here.

Governments, I guess, have felt that there are other reasons for adding a certain level of taxation, perhaps health reasons or whatever, but it's certainly no secret that when taxes become unreasonable, no matter what the market, people go underground. That's happening right

across our whole economy and probably more so—certainly in cigarettes it has happened to a huge degree, and it's happening here.

From time to time I would purchase your product, but I'm not—I don't know how to phrase this exactly—an overly regular consumer, let's say.

**Mr Ferguson:** It's all relative.

**Mr David Johnson:** What would be the price of an illegal bottle? What are you competing against? What can they sell it for on the illegal market?

**Mr Veilleux:** I will, if I may, at the same time correct something that I have said and I think misled you. The municipal taxes are not included in the 83%.

**Mr David Johnson:** They're not.

**Mr Veilleux:** I'm sorry. The municipal taxes are in the manufacturer's price.

**Mr David Johnson:** So in actual fact they're well over 83%; perhaps in fact 90% would be taxes in one form or another.

**Mr Veilleux:** You're right. I'm sorry.

**Mr Clinton:** In our case alone, referring back to my comment, it would be approximately an extra \$1 per case with the municipal taxes.

**Mr David Johnson:** I'm not surprised. Sorry to interrupt.

**Mr Veilleux:** I'm sorry about that. Secondly, I would like to say thank you; I think moderation has a better taste and we also sell moderation. We hope that everyone would apply the same principle, because if everyone did, we would not face the problems of excessive taxation. The abusers, according to Health and Welfare Canada, are less than 3%, but 3% of 10 million people in this province is a lot of people. We are working and we hopefully can work with the Ministry of Health, but the Ministry of Health has refused to work with us. We can work with Health ministries in all provinces except Ontario, and I would hope that at some point we can do something together.

Going back to the last question about what is the price of an illegal bottle, if we take this average bottle that we have priced on page 23, the same bottle on the black market would sell for about \$13. It will vary from province to province or area to area. The reason for this is that a lot of the smugglers are removing half the content of the bottle and replacing it with something else; therefore they may be selling you a bottle that has not 40% alcohol per volume, it may have only 20%; the rest could be tea, it could be anything else. This is the type of situation, so average \$13.

**Mr Wayne Lessard (Windsor-Walkerville):** I want to thank you very much for your presentation. I'm very sympathetic to the concerns of your industry, being from Windsor-Walkerville, the manufacturing location of one of those world-known brands, Canadian Club, that is exported all over the world. The future viability of that distillery is important to our community.

I'm glad that you acknowledged the increased efforts that the Ontario government has made to deal with smuggling and deal with the sale of illegal alcohol in the

province. I think it's important that everybody knows there are a lot of people who have lost their licences in the last year for selling liquor illegally here in the province. I wonder if your industry is working with the Liquor Licence Board inspectors and what level of cooperation you're finding in identifying illegal vendors and assisting in investigations.

**1030**

**Mr Veilleux:** We are working with the various police forces at the federal and provincial levels and we are trying to promote some programs which would, again, enhance this type of cooperation. We've done several things; there are too many for me to list.

Certainly, at the federal level, which also relates to provincial, every time we export goods the documentation is readily given to the police forces so they can follow shipments. We cooperate with the police forces if we have some indicator that some shipments are not going where they should go. This is being done.

We are certainly in constant contact with forces in the United States. The Bureau of Alcohol, Tobacco and Firearms, BATF, has been working with us. As a matter of fact, I have somewhere a copy of a circular that the Washington BATF issued yesterday, asking its own producers to be very careful about where their goods are going because they believe that a lot is coming into Canada. So even in Washington there's a lot of activity to help in this area.

**Mr Lessard:** Part of the reason that I ask follows up on the article that you've provided for us about activity at the Akwesasne Reserve, because one thing that has changed since the last time you were here is the decrease in cigarette taxes and a shift in the smuggling business away from tobacco to alcohol. It seems as though the problems in dealing with smuggling activities there are very difficult, and I don't know whether you have any suggestions to deal with this. It's blatant illegal activity and I don't know how much enforcement you can apply to put a dent in that business.

**Mr Veilleux:** Mr Lessard, I don't have an answer to this one. What I would like to suggest, however, is that there are two sides to the story: people who are selling and people who are buying. If Ontarians and Quebecers and Canadians in general would stop purchasing these goods, we would not have the problems with the reserves. Certainly, it's not acceptable, but how do you solve this matter?

We've raised it with every provincial government, we've raised it with the federal government many times, but it's a difficult issue. I think we all realize that. It's not an acceptable issue; it's difficult. At some point, someone will have to address it because the legal industries will disappear.

I would like to point out here that in my contacts with many police forces, it was tobacco, now it is alcohol, and it's also chicken, it's also everything that is controlled by a board of some kind in this country. There's no limit.

**The Chair:** At this point, I'd like to thank the Association of Canadian Distillers for making a presentation before the committee this morning.



COUNCIL OF ONTARIO  
CONSTRUCTION ASSOCIATIONS

**The Chair:** The next presentation this morning is by the Council of Ontario Construction Associations. Please come forward. Make yourselves comfortable.

**Mr Paul Douglas:** Thank you for the invitation to make a presentation. My name is Paul Douglas and I'm here today because the budget process in Ontario has enormous influence on the viability of my company, PCL Constructors, and my industry. With me is Frank Bisson, the chairman of COCA's tax and economic development committee.

Construction is a very vital part of the province's economy, and I believe this is not understood by many, both publicly and in the political world. Even during a recession, 10% of all employment in the province is provided by the construction industry. That represents almost five times the automotive industry and it's the second-largest industry in the province. It generated in 1993, which we have the last figures for, over \$15 billion in revenues and paid very high levels of taxation, workers' compensation assessments and other contributions to the public good.

The Council of Ontario Construction Associations represents approximately 10,000 construction companies in Ontario. Some are large corporations like mine, but most of them are small operations with fewer than 10 employees, many less than five. Our industry is not only large but very unique. In the industrial world, where employment is fairly regular, the construction industry is very cyclical. Particularly in the union sector, employees change employers project after project. These are just a couple of the very unique aspects. That has an impact on many facets and that has been recognized in workers' compensation legislation, health and safety legislation, employment equity legislation and a host of other acts which make special provisions for our industry. What is missing is the attention to construction's specific economic needs. That is the principal reason why we're here today.

COCA has made presentations either to the Ministry of Finance or to this committee for many years, but it is clear that our suggestions have gone unheeded. Ladies and gentlemen, the fact of the matter is that the construction industry is not healthy; it's in miserable shape. To give you some solid numbers, you should know that from 1989 to 1994 the total number of workers available in the industry dropped from 371,000 to 331,000, a 40,000 decrease. Those are the available workers. As of last December, over 40,000 workers, some of the best in the world, had either left the industry or left the province in search of other work. Even with this reduced workforce, there were still 64,000 workers unemployed at December 31, 1994, most of them in Toronto.

Innumerable construction companies have closed their doors and highly skilled tradespeople have left. But as I said, no one has listened to date. We have outlined our difficulties year after year and we have made positive suggestions for the Ministry of Finance to help our industry. We are firmly committed to the elimination of the provincial deficit, but we also firmly believe in the

boost to the economy that results from the multiplier effect of capital expenditure in construction.

In the recession of the early 1980s the Ontario government increased its capital spending by 48% and the effects on construction were not nearly so severe as they have been over the last five years. Every year we have asked that capital spending be increased, but every year government spending has not met its own projections.

We have also suggested, quite rightly, that the government reduce current spending to offset higher capital expenditures. Instead of listening to us, though, the government has erroneously made countercyclical current expenditures instead of countercyclical capital expenditures. This is purely bad economics.

Directly involved in the vital sectors of the economy, contractors are not isolated from political affairs. We get concerned about such things as the long-term health care bill where the vast majority of professionals and volunteers from the VON, Red Cross and other honourable agencies spoke against the bill, yet it was rammed through the House under closure. We are also intrigued to realize that a New Democratic government has utilized closure more times than practically anywhere in the free world.

#### 1040

As you can understand, we have very little faith in the process, but we proceed with it in the hope that someone will listen in an election year.

The graphs and charts accompanying the presentation will give you a picture of an industry that has been savaged by the recession.

What we said last year is unfortunately true this year as well: Recovery for construction is a very long, slow, painful process. The graphs also demonstrate that the budgetary policies of the government have not alleviated the effects of the recession for construction. In fact, the budgetary policies of the government, particularly the choice to increase current spending and subsequently to maintain expenditures at high levels, have actually harmed our industry.

We don't know why the Minister of Finance chose not to engage in traditional countercyclical capital spending on construction, but between 1991 and 1994 Ontario actually cut capital spending by almost 10% at a cost of over 25,000 jobs.

We have recognized that the government has supported expansion of the Toronto convention centre, subway extensions etc, and let me state very clearly that COCA has publicly recognized the government's actions in this regard and has thanked the ministers for supporting those initiatives.

But we must insist that the rosy picture painted by the government be put in perspective. In 1990 construction employment was 324,000. At the end of 1994 it was 266,000. Construction today has 58,000 fewer jobs than it did in 1990, and the unemployment rate for our industry in 1994 was 19.4%.

To put in bluntly, there hasn't been a single new job created in construction over five years. Some of those jobs that were lost have been replaced, but unemployment

remains virtually double the provincial average for other industries.

What is particularly puzzling to us is the fact that despite overwhelming evidence that construction is both very large and very different, there is no single division, department or agency in government that champions our industry. No singular attention is given to us as it is to agriculture, mining, tourism and other important but smaller industries. Looking at our presentations to this committee or to the Minister of Finance over the last five years, it is obvious that no one inside government has championed our case for countercyclical capital spending. Imagine the uproar that would ensue if officials of the Ministry of Agriculture failed to propose stabilization or other payments to farmers during a downturn.

Every year for the past five years we have requested the government to keep its capital spending at least up to historical levels and to increase those levels if possible. But every year for the past five the government has failed to spend its budgetary projection. The actual shortfall in capital spending has probably helped keep the government's deficit down lower than what it might have been, but it has not helped thousands of unemployed workers get jobs.

The government has done some strategic capital investing, of course, but since one in five construction workers is still unemployed, the conclusion is unavoidable that it has not done enough. What we have suggested is that capital spending be curtailed in a variety of areas covered by the budget and that some of the savings be invested in construction. The multiplier effect of spending on construction is extremely high. One million dollars not only generates 25 person-years of full-time work but it also stimulates the provision of other goods and services.

If we could give you but one solid example of a win-win situation, it would be the province's sewer and water services, where annual savings of hundreds of millions of dollars could be realized. To talk about this proposal, I would turn to my friend and colleague Frank Bisson, who has many years of experience with Ontario's best construction companies.

**Mr Frank Bisson:** As Paul has noted, countercyclical spending by the government is only one side of the question. The other possibility is private investment. So as I've done for some years now, I'd like to repeat a positive suggestion to increase capital spending without increasing either the provincial deficit or the provincial debt. The subject, of course, is public-private sector partnerships.

What we are suggesting is that the government—indeed all levels of government—seek out and facilitate appropriate capital projects, and I underline “appropriate,” that can be accomplished through partnership uses. By appropriate projects, we mean those that would be self-financing; in other words, truly off the government's books. My example here is water and waste water treatment plants. It's just one example, but I think it's a good one.

One of the leading members of COCA, the Ontario Sewer and Watermain Construction Association, has been attempting for years to impress on governments the

absolute necessity of upgrading Ontario's seriously deteriorating water infrastructure. COCA naturally supports the sewer and watermain contractors in this quest, and we both lobbied strenuously for the creation of the capital corporations, specifically OCWA, the Ontario Clean Water Agency.

Unfortunately, however, we have seen very little movement towards public-private partnerships in sewer and watermain development. We think it's a natural. We are hoping, of course, that the recent report of the Provincial Auditor, which pointed out the serious state of water infrastructure in Ontario, will spur governments to action.

As I said at the outset, this area of activity would be an absolute natural for partnerships. Not only could treatment plants be built by private enterprise at no cost to the provincial government; movement towards full-cost recovery, in other words, raising the rates paid by consumers gradually to reflect true costs, would allow the provincial government to eliminate the current subsidization of local plants. By our estimation, a gradual movement towards full-cost recovery by local authorities would eventually save the general revenue fund between \$200 million and \$450 million per year. Big savings.

In addition, since these would be self-financing, user-pay projects, they would be completely off the government's books and would not increase deficit or debt. Everyone is aware of Highway 407, but the user-pay concept is the only part of public-private partnerships that has been put in place. Private funding of the project is missing, and the costs of the highway are on the books of the provincial government, according to the Provincial Auditor.

By contrast, British Columbia appears to be jumping into the lead in terms of public-private partnerships. Finance Minister Elizabeth Cull has recently stated that BC is considering privately owned hospitals, schools, toll bridges, roads and other projects. The minister is quoted in the *Financial Post* as saying, “I think you could look at the private sector building [a hospital] and then renting [it] to a hospital board.”

Also in British Columbia there is the example of a road being built to a ski resort by private financiers which will be paid for by a \$2 surcharge on ski-lift tickets. The possibilities for creativity are endless, and we implore the government to look at private-public partnerships as a way to help reduce the approximately 20% unemployment levels we still suffer.

Last year the Council of Ontario Construction Associations called on the government to cut its operating expenses and increase its use of private sector financing to facilitate a capital budget for 1994-95 of \$4.7 billion. This did not happen.

The details of our recommendation suggested that ministry capital budgets remain at current levels and that the capital budgets of the capital corporations be increased by \$400 million—using appropriate capital projects was the thought we had in mind, off the book—through partnerships with the private sector.

By our estimation, such action would have created



29,000 desperately needed jobs in Ontario, 16,000 of them in the construction sector. The goals we suggested would have reduced unemployment in construction by a whopping 23%. But as you saw earlier, our suggestions went unheeded and unemployment in the construction industry, year over year, dropped only 2%. Construction in fact continues to lag behind all other industries by significant margins.

There are, of course, some large public projects under way in 1995, such as the subway extensions, the convention centre expansion and Highway 407. There are also some large private contracts, such as the Ottawa Palladium being undertaken by Paul's company. But the impact of these projects must be kept in perspective. The industry overall is still in serious decline.

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We invite members of the committee, especially those from the government caucus, to look at the roster of COCA member associations appended to this brief report. Every major sector is included and within each sector are Ontario's leading companies like Paul's—PCL Constructors Eastern Inc—which was not only listed in the Financial Post compilation of Canada's top 500 companies but was also listed among the 50 best corporations to work for in Canada. It's number 89 on the Financial Post listing.

We have member companies that are doing hundreds of millions of dollars worth of construction in Michigan, Georgia, Alaska, all the way over in Dubai, Palestine, Hong Kong and China. Many of our companies are sought out for joint ventures all across the world. In other words, the expertise of COCA members is honoured and sought virtually everywhere—everywhere except by the government of Ontario.

Last year we recommended that the government of Ontario take advantage of the knowledge and experience of COCA's experts and create a permanent panel of public and private sector leaders to make recommendations to the government regarding capital expenditures. Such a group could advise on the role that private-public partnerships might play in assisting the government to meet its long-term capital requirements and also its shorter-term plans for job creation in small and medium-sized businesses all across Ontario. This has not happened.

I am happy to say that we do have a small step in the right direction regarding consultation and that is the creation of the Construction Industry Advisory Council of Ontario. I have the honour to be chairman of CIACO, the council, and we have recently held high-level meetings with senior civil servants concerning CIACO's action plan for the industry. But capital spending is not part of CIACO's current mandate.

What we require, to be blunt, is a champion, a political champion, in the corridors of decision-making. As the second-largest industry in Ontario behind retail, our leaders should be involved on a regular and continuing basis with the Ministry of Finance and Management Board Secretariat with regard to capital planning and the economic needs of our giant industry.

Another matter of great concern to contractors is the image of Ontario as a place to invest. What do potential investors think about moving to the most pro-union jurisdiction in North America where a new company can be unionized with only one employee signing a union card and where employees can't be fired no matter how bad their performance during a union sign-up campaign? How much Bill 40 has retarded Ontario's recovery is something that should be studied seriously.

What our industry needs is an aggressive campaign to lure businesses to Ontario along the line of Frank McKenna's campaign in New Brunswick, but this is hard to accomplish when the image of Ontario is anti-management. A further message we have for this committee has to do with the unfelt effects of Bill 40. Because of the recession, very few unions have dared to undertake job action but if, as and when there is a recovery, the inflationary effects of Bill 40 will be very serious indeed.

Back in 1992 it was claimed by the government that banning the use of replacement workers would reduce picket line violence. The reality, of course, is that removing the employer's only economic weapon virtually guarantees that the only choice for employers will be between giving in to whatever economic demands are raised by the union and going out of business.

The reason we raise this topic is that there are all kinds of rhetoric on both sides of the issue but there is no study of the economic impact of Bill 40 available to this committee or the Minister of Finance. Such a study should be undertaken immediately by this committee.

Finally, we want to leave time for questions so I'll just mention briefly the detrimental effect that our industry would suffer if corporate taxes are raised yet again. It is our view that the government has the same problem as the Workers' Compensation Board and that problem is one of expenditures, not revenue.

I'll close by inviting questions from the committee members, but I'll also remind you that one of the most important things you could recommend is that the construction industry be invited in as a full partner in decision-making regarding capital spending.

**Mr Gary Carr (Oakville South):** Thank you very much for your presentation, and I agree with a lot of the thrust in terms of the private sector being more involved. As you probably know, yesterday we heard from the private sector. They're involved in roadbuilding and are saying the same thing, that there needs to be more private sector involvement. In fact, we believe there needs to be in day care and nursing as well.

But I wanted to see, on page 4, if you could be a little bit more specific in terms of how the funding would work. You talked a little bit about "the Ontario Sewer and Watermain Construction Association has been attempting...to impress on governments" some of their solutions. I wanted to see if you could be a little more specific. How would it work in terms of raising the revenue to the private sector to be able to fund these projects? Could you be a little more specific?

**Mr Bisson:** I hope we're answering you properly here. What we see is that you need what we call appro-

priate projects that would be truly off the government books. Without being an expert in this, I have talked to some people about that, and what you want to do is you want to make sure that it's not considered to be a capital lease in accounting terms.

In order to do that, it first of all has to have a separate revenue source from the government—in other words, anything that the public would pay for would have a separate revenue source—and it also has to be not financed by the government. I think that includes government guarantees. So that has an additional cost to it, to go to the private sector—government can borrow cheaper because it's bigger—but we think that it's appropriate. It's off the government's books, it doesn't increase the debt and it doesn't increase the deficit. That's what we're recommending here. Is that the answer you wanted?

**Mr Carr:** Yes. I guess we could get more details of how it would actually transfer the funds through the public now, but that's fine.

A very quick question on Bill 40, because we don't have much time, and I'm interested more in some of the employees right now: As you know, when that came in, we had already committed to getting rid of Bill 40 and the provisions our party has as well as introducing secret ballots for certification, ratification and strike votes. But I wanted to see the average workers out there, what they are saying, because you obviously deal with them on a daily basis. What are they saying about the impacts of Bill 40? Do they realize that it has cost jobs long-term here? What is the average worker saying about Bill 40?

**Mr Douglas:** The feedback lately from the employees has not been very strong one way or the other. I think when Bill 40 was coming in and basically getting rammed through, the employees knew that wasn't what was great for the industry. I don't think they have seen any great benefits from that but they have seen that our industry is suffering and is continuing to suffer. So they haven't seen great gains and they are seeing great losses. I think it's safe to see that they'll be very supportive of the repealing of Bill 40 en masse.

**Mr Carr:** Thank you and good luck.

**Mr Kimble Sutherland (Oxford):** I must tell you I take very strong exception to many of the things that you've put forward in your presentation. You talk about needing an aggressive champion for the construction industry and you talk about Frank McKenna and how he's using funds to attract businesses for call centres there. I think it's important to note that this province has increased the number of jobs in call centres by more than the entire New Brunswick industry in that area, and it is the Premier who is the aggressive champion who's trying to get the other two subway lines built, who's been leading the charge to try and do that. You claim that Bill 40 has in fact a negative impact. We've had the fastest job growth in 1994 since 1988.

You further claim that we haven't reduced the operating expenditures and that we didn't do anything in terms of capital expenditures. In our first budget the anti-recession fund, \$700 million, was construction, was extra funds put in. Our government has maintained capital levels to a degree that I would like to see whether any

other province has maintained them in the very difficult economic period we have gone through.

**1100**

I don't expect you not to be frustrated. Your industry has been extremely hard hit. Some of those are circumstances beyond our control. We can't account for the fact that the private sector, particularly here in Metro Toronto, greatly overbuilt in the commercial sector in the boom in the late 1980s and that's fallen under.

I understand your frustration. We would like to get those people back to work. But I must tell you, some of the rhetoric and stuff in this presentation that just simply does not hold up, in my view, I take very strong exception to that, because this government has made capital a major commitment, despite a lot of pressures, I will tell you, that say, "You should be cutting all government spending, not just operating but capital spending as well."

**Mr Bisson:** I've been here for the last few years now. I'm not sure how many years, but I know that at least three years ago we began giving the message that we would like to see capital spending through public-private sector partnerships begin, try to get it off book, supported the government and asked that we be given some opportunity to work with the government to try to establish these in a proper manner so that they would be appropriately off the books and so on. This has not happened. We've given up, so we're starting to criticize at this point.

I think that beyond that, if you go back to when your government was first elected, there was a big increase in the deficit. It was all on the current spending side. If you will look at the capital side, you will find that you are something in the area of 10% below commitments on the average in the last three years, below capital spending commitments.

So what happens is quite correctly said. What we said is that you went countercyclical, but your countercyclical spending was on the current spending side, not on the capital side. On the other hand, in the 1982 recession, there was a 50%—48%, to be exact—increase in capital spending by the government of the day.

**Mr Sutherland:** Okay, but let's also remember the apples and oranges, because in terms of what occurred before then, you didn't have the same degree of overbuilding in the commercial sector that unfortunately has occurred here and has had a dramatic impact on your industry.

I guess all I'm trying to say is—

**Mr Bisson:** All we've asked was to give some help. For the last few years—

**Mr Sutherland:** Yes, and that's fine, those proposals. But what I'm saying is, there are all kinds of other things in here that I take very strong exception to, because I don't think they hold up in the facts.

**The Chair:** We have to go on. Mr Phillips.

**Mr Phillips:** Well, I appreciate the advice of the industry, and every presentation. Some party may disagree with something, but I appreciate your recommendations and I'd just say a few things.



One is, we've been very supportive of the capital corporations and we voted in favour of that bill, just because we thought the component of it that looked at creative new ways of building infrastructure was right. I'm a Liberal and we're very prepared and anxious to pursue legitimate creative new ways of building infrastructure. So we're with you on that and I appreciate your presentation with some of the specifics.

We're also very supportive of finding a way to avoid the kind of countercyclical spending and I'd appreciate detailed advice from the industry, because I think what has happened in the past is that in good economic times, when the construction industry is booming, probably the public sector should continue to book the expenditure but not to make the expenditure. But the challenge is to book the expenditure, because what we're going to find now, in my opinion, as we come out of the recession, is that we'll continue to have financial problems. So I'd appreciate the industry's advice on that, because I think probably had that been in place five, six years ago, a bank may have been built up on the construction side. As I say, I'm anxious for specifics on that, anxious for specific recommendations from the industry on other creative new ways of funding infrastructure. You've talked today about some things being done in other jurisdictions.

Just in case I don't get my last question in, I too was very disappointed in the 407. When the request for proposal went out, we were totally supportive of it because it was a total package, including the financing. That was going to be the litmus test for me: "All right, they raise the money privately."

The reason we got back from the government of why it didn't proceed with that was because the government said it could borrow money cheaper than the private sector. That's a given. They knew that going into the proposal. That's always the case. So if that was going to be the criterion, they should never have issued the proposal on that basis.

The reason it's so important to us is that both the reasons you've raised—we now have the debt on the public books. Secondly, in my opinion, the consortiums, had they raised the funds, would have had a better international product to sell. I see today the consortium is doing some work in the Philippines. I think they would have had a much better product to sell if they'd had the—that's my question.

**The Chair:** We have to conclude, because we're going to go on to the next presenters.

**Mr Phillips:** Well, you'll have to do it privately, or just send the committee private sector partnership recommendations and also, I guess, any suggestions on how we do the financing to avoid these countercyclical problems.

**The Chair:** Regrettably, our time has expired.

COUNCIL OF ONTARIO UNIVERSITIES

**The Chair:** The next presentation this morning is by the Council of Ontario Universities. If you could identify yourselves for the purposes of the committee members and Hansard, I'd appreciate it.

**Dr Peter George:** I'm Peter George, president of the council. To my left is Patricia Adams, who is the execu-

tive director of external relations for the council. To my right is Jim McAllister, who is senior policy analyst at the council.

We, as always, are pleased to appear before the committee as part of your pre-budget consultations and especially glad to be here this year because the 1995 budget and certainly the 1995 federal budget are going to be extremely important for higher education in this province and, of course, in the country as a whole.

Universities are among the great success stories of the past two or three decades. When Canadians think of their success stories, they usually think of the health care system and medicare, but they can point with equal pride to the universities of the 10 provinces of the country and in particular to the universities of the province of Ontario, which are held in high esteem internationally as one of the finest university systems in the world.

These success stories really arise from what has been a very significant partnership over the past several decades between the federal government, the provincial government and the universities in this province. In my brief, there are a number of specific indications or measures of this success. For example, across Canada there are more than 1.5 million university and college students enrolled at present, and as a percentage of university graduates of the total population, Canada has the highest participation rate, by this measure, in the world.

I have presented to you before data on unemployment rates, average incomes and so forth of university graduates. They are far less likely to be unemployed and far more likely to enjoy higher-than-average incomes than those who have never participated in post-secondary education in Ontario and the country. If you look at the evidence on employment generation during the recent recession, it is university graduates who have taken the new jobs created in the province and country and persons who have not participated in higher education who have borne the brunt of the recession's loss of employment.

In addition, university graduates are what I would call good citizens from the fiscal perspective of the provincial and federal governments. They are less likely to collect social assistance or unemployment insurance benefits and more likely to pay higher taxes. In fact, we have estimates that show that they contribute more to provincial, federal and local government revenues than they use in terms of government grants. A benefit-cost ratio greater than one for levels of government is immediately apparent.

We submit that it's very important to think of our universities as investment expenditures by the various levels of government rather than consumption expenditures. Our contribution to human resource development, our contribution to research development and the spinoffs to industry are vital for the economic success of Ontario in the globally competitive economy.

1110

We point out in this brief some observations about levels of funding. We would be remiss if we did not do this. The real value of operating grants to our universities

is less than it was in the mid-1980s. When enrolment growth is taken into account, whether one views this strictly as productivity increase or not, the amount of provincial funding for each student is now 25% less than it was in the late 1970s. By comparison, expenditure per student in the elementary and secondary systems is far higher than it was in the 1970s. Those comparisons continue to worsen, to the disadvantage of your university system.

We also include in the brief some observations on our sector under the social contract. The Price Waterhouse study that was done almost a year ago indicated that the universities did bear a significant employment adjustment under the social contract, mainly in the form of contract employees who were not renewed. For the most part, salaries and wages have been frozen, grid-scale movement and merit pay frozen, although there are a couple of instances where some modest merit pay has been substituted for reduced across-the-board allocations.

But our major concern is what this long period has done to the competitive position of Ontario universities vis-à-vis other jurisdictions within Canada and certainly to jurisdictions in the United States. Enclosed in this brief for your information is a recent set of data on recommendations for allocations to higher education in the United States to public institutions. The average in the States is for increases of approximately 9% for higher educational sectors by state. Most of the major public systems comparable to Ontario's—California, Michigan, Minnesota, Pennsylvania, New York—have very large increases indeed and they're already starting from a base where their expenditures per student are roughly 30% to 50% higher than they are for Ontario universities. That competitive environment is worsening drastically and we are seeing the impacts on our competitive position daily.

We have a number of frustrations, to be frank.

The formula funding review under way by the Ontario Council on University Affairs has come at a time when we felt it was disruptive and created additional anxiety, given the overall fiscal stress facing the institutions.

We certainly have concerns about the way in which Ontario Training and Adjustment Board, OTAB, resources are being deployed and believe that some of those resources ought to be designated for skilling and reskilling of people at the higher end of the skill spectrum.

We believe that the royal commission is bang on when it talks about striving to achieve a genuine four-year preparation in the secondary schools for post-secondary education and the possible reallocation then of a very significant pool of resources to other educational objectives.

We are tremendously concerned about the federal budget proposals and the possible federal cutbacks to university research grants and infrastructure and, generally speaking, to post-secondary educational transfers.

Finally, we do have some observations about the role of the provincial government in support of university research and how that might be improved.

I think there are a number of specific recommendations

that I would draw to your attention, in closing.

First, we believe that it is very important to view the university system as a high-priority sector in this province, high priority as an investment in infrastructure, for human resource development and research development for technology transfer, and that the university sector be assured that the level of operating grants announced for 1995-96 be maintained whatever the repercussions of the federal budget and, second, that those operating grants be restored to their historical high of just over \$2 billion as soon as possible. I think an explicit recognition by this committee of the priority to be attached to higher education would be most welcomed by the universities of Ontario.

We continue to believe that some further increases in tuition fees are necessary. Our discussion paper of a year and a half ago brought that issue very much to the public's attention. The government has reacted positively with 10% increases for 1994-95 and 1995-96. We believe that further increases in order to provide us with a stable funding base will be necessary, and those increases would of course be used to maintain and enhance the quality of academic programs and access.

We are about to submit to the minister for his approval a proposal to permit fees for advanced training courses to essentially be deregulated so that we can negotiate with our training clients on a cost-recovery basis to offer those programs.

We believe certainly that income-contingent repayment is the way to go for repayment of student loans and encourage the Ontario government to continue working closely with the federal government to implement a suitable ICR program.

Finally, we believe the Ontario government should continue and enhance its efforts to encourage university research and technology transfer.

We say this knowing that the economic climate for Ontario is improving, that the rates of economic growth have turned around, are positive, are strong, and that the employment record is improving as well. We believe this committee is in a position, as it has done in the past, to acknowledge explicitly the crucial role of our universities in economic and social renewal in this province and our vital contribution to the economic viability of the province and its citizens in the globally competitive economy that faces us.

**Mr Gary Malkowski (York East):** Thank you for your presentation. As you know, our government has committed to keep the services and maintain the services at the universities. Talking about tuition fees and student loans and capital projects, we've promised to maintain these, and at the same time we're facing discrimination by the federal government and we have faced that during the last recession.

I wonder if you can comment on what the impact will be of a reduction in federal transfer payments and what would be your recommendations on creative ways to raise revenue, such as partnerships in the community or other types of partnerships. What would be some creative way we can get revenue?



**Dr George:** We have been most appreciative of initiatives like the joint infrastructure funding project which have benefited our institutions. Our concerns about the repercussions of the federal budget proposals have been addressed to the HRD and to all levels of cabinet in Ottawa. Copies of that brief have been circulated to all MPPs within Ontario.

Essentially, we are very concerned that if the total EPF cash were removed abruptly, this would place us in a position where if those cuts were all passed on to the institutions, we would be faced with a very significant revenue loss. The possibility that the federal government held out that this could be offset by very significant immediate tuition increases is not an appealing alternative to us. We're very concerned that the proposed doubling of fees would occur too quickly to too high a level and might have serious repercussions on accessibility. Our own proposals for tuition increase have been much more moderate and I think are seen to be much more moderate now in comparison with those stories coming out of Ottawa.

So our proposal to HRD has been that instead of cutting those cash transfers out immediately, they be mitigated, that some savings be taken, a fair share of savings, out of post-secondary education, but that the rest of those funds be put into support of income-contingent loan repayment plans for student assistance, into research infrastructure in support of university research, and into, thirdly, continuing transfers at a lower level to provide for interprovincial equity of access, all important national objectives and important to Ontario too.

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In terms of partnerships, we've been working very hard in this area over the past three years, and I've reported to you, I think, on some of these initiatives in their earlier stages. We're about to announce the creation of a COU office of advanced training, and this office is intended to broker the needs of industrial partners seeking training to the university system. Industry tells us they need a single point of access; our office will provide that. It is funded for a three-year pilot project by four sources of support: three of the sectoral training councils, the electrical and electronics industries, the software industry, and the telecommunications industry councils; by HRDC; by MET; and by the universities of Ontario.

There will be close liaison with the new Con-nect office of the Ontario college system, and I would hope that, combined with our consortium development between colleges and universities to deliver advanced training, you will see within the next three years, mark my words, a very significant improvement and enhancement of partnership training in this province at the higher-skills end of the spectrum.

**Mr Malkowski:** So what we're doing at York University and Seneca College is an example of that kind of partnership.

**Dr George:** Excellent examples. And McMaster University and Mohawk College have a similar new initiative under way in the applied health sciences. These are tremendous examples, I think, of greater interinstitutional cooperation.

**Mr Dalton McGuinty (Ottawa South):** Good to see you again, Peter, friends. We've had, obviously, a number of discussions on these issues over the past few years, Peter. It's good to hear you this morning, though, talking about the elimination of grade 13. I just want to get some particulars from you here so I can get the record straight. Does your support of the elimination of grade 13 hinge now upon the transfer of those funds into the university sector?

**Dr George:** I'm an economist by training, and one of the things I am trained to think of is cost-effectiveness of program delivery, and efficiency. I think there is a misallocation of public resources to secondary education in particular, in the form of the current system.

I have argued in the past that if we move to a system that calls for full disclosure, on high school transcripts, of numbers of attempts at OAC courses, this would in and of itself reduce the numbers of frivolous attempts and save the taxpayer money. I think it would drive the system closer to a four-year goal rather than the current 4.7 years. One has to allow for some friction in the system: We'll never get it down to 4.0; we might well get it to 4.2 or 4.3 and save \$200 million or \$300 million in the process.

The possibility of going beyond that, to a three-year specialization beyond grade 9, is, I have to admit, attractive to me as well, although I have not generally presented the case strictly in those terms. But when I look at other jurisdictions within Canada and North America, certainly the norm of a four-year high school preparation for post-secondary education is everywhere around us, so there's a logical extension, I think, to Ontario that a four-year high school preparation ought to be our goal. There are a number of ways of achieving that, and I've mentioned the least intrusive first. The most intrusive would be to declare that it is to be a four-year curriculum as the goal.

**Mr McGuinty:** Parents and students have raised this concern, Peter, and I would like you to respond to it. Are you telling me that we could complete grade 12 in this province, go directly to university, and that there would be no additional university year and corresponding tuition to be paid?

**Dr George:** I would think that for most students one could incorporate the OACs into the fourth year of the high school curriculum and we could have a genuine norm of a four-year preparation for post-secondary education. I think one has to allow for the possibility that for some students an extra term might be needed, whether it's because they made some inappropriate choices along the way and so have to extend the preparation of OACs. But the key thing, to my mind, is that the curriculum be designed with a view to completing high school within the four years, and then, that friction that carries students beyond the four years is not the normal case, it's the unusual case.

**Mr McGuinty:** This government will have raised tuition fees by 42% by the end of its term, and you're asking for further increases in tuition fees. Students of course are very concerned about further increases in tuition fees, but when there is some acceptance of that

notion there's also a willingness to assert some responsibility for how that money's going to be spent, for instance with something like the creation of a maximum class size.

Universities, historically—I don't have to tell you this—have evolved to the point where they consider themselves to be, by and large, autonomous and quite willing to run their own shop on their own. What is the universities' position vis-à-vis students' request that, "Listen, if we're going to pay more, you've got to give us more say in how the money's going to be spent"?

**Dr George:** What we mustn't lose sight of in all this process is that any additional resources the universities get, whether from tuition or government grants, are put to the goals of accessibility and quality of education. Students, if they are paying more as a private cost for their education, will certainly have greater expectations around the quality and delivery of that education, and I expect that the greater the private contribution, the more demanding a consumer or customer the student will become. I have no problem with that whatsoever. I think our educational system has demonstrated in the past and will continue to demonstrate that it meets the needs of its student clients, and I think the private rates of return to people completing university degrees bear that out fully.

I do think that the question of legislating a maximum class size would carry the shimmer of micromanagement a little too far in the direction of reality. I, as president of an institution, would hesitate to tell any of my departments what their maximum class size is to be, even though I'm very close to the operation, because there's no demonstrable evidence, it seems to me, say in a first-year course, that a class size of 200 is a less effective way to deliver instruction than a class of 100. It depends on the kind of supporting elements there are in the educational process: tutorial groups, access to computer equipment, library access and so forth; it's the total package. So I would certainly object to any kind of intrusion that stipulates maximum class size.

The universities have shown through this period of restraint, lasting for many, many years, that they are exceptionally able to make wise decisions about the allocation of their resources. They don't need help on that issue from government, with all respect. What they do need is help with the resource pool itself. Our two major sources of revenue—grants and fees—are closely regulated by this system, and I submit that a little less regulation might also be conducive to greater efficiency in the allocation of resources at the institutional level.

**Mr David Johnson:** I certainly thank you for your deputation. I'm a little saddened to see that all of the references to funding are for years after I graduated; I'm starting to feel old listening to your statistics.

But I'm thankful that we have an economist who is in such a position because I think the allocation of resources, putting the resources in the proper areas, is so important. My party certainly agrees with you on that. Indeed, I suspect we've listened very closely to you because many of the points you've raised are points we have firmly indicated we're in support of; for example, the reallocation of the costs associated with grade 13; we

think that money can be used more efficiently. The income-contingent repayment plan is a plan we're very supportive of. Looking at deregulation, the point you've noted is that the deregulation pertaining to advanced training courses, for example, is something that has to be looked at.

**1130**

My question to you is, is there any way to measure the impact of the points you have on the page in terms of meeting your resources and your needs? I'm thinking of grade 13, although there'll certainly be differences of opinion about where those resources should be allocated. Some people feel it should be allocated to three-year-olds, although we don't happen to share that view. The at least partial deregulation; the income-contingent repayment plan; you feel that tuition fees have some room to escalate, perhaps in conjunction with the income-contingent repayment plan: With those kind of plans, is there any way to measure resources that can be freed up, can be used more efficiently, how far they'll go to meet the needs you see?

**Dr George:** That's a very good question.

First, let me say that's one of the very few favourable comments about training as an economist that I've ever heard, and I appreciate that. For most of my economist colleagues, the real world is a special case, and I'm certainly getting a good dose of real-world economics in my current and future jobs.

I think the question of measuring impact is extremely important. We are committed to the publication later in this calendar year of a performance indicators book for Ontario's universities. The extension of that project in the succeeding calendar year, 1996, is to get a better handle on outcomes measures specifically, to provide groups like this committee and members of the public at large with a much better feel for how effectively the universities are expending public resources.

If you were to ask me for specific examples of how we could document, if we got additional resources, where the best bang for the buck would be, I'd say, first of all, that we can certainly look at some of the educational programs. We know that if you look at private returns to investment in, say, dentistry, medicine, some of the professional areas, where tuition levels are very much in the same ballpark as they are for core arts and science programs, private rates of return are very high in some of those professional areas. A substitution, if you like, of tuition for grants would certainly bid away some of the rents that are accruing to individuals who I think are getting a particular bargain in terms of low tuition fees. In that area we could certainly make some demonstration and even argue for some reallocation of resources towards, if you like, the helping professions, like social work, where private rates of return are much lower and for the student it's then a more costly, in net terms, investment.

Second, if you look at the reviews of programs like the provincial centres of excellence program and the URIF program, the university research incentive fund program, which are partnership programs between the private sector, government and the universities, those reviews



have been shown to be very positive in terms of the spinoff effects and the enhancement of training for a graduate student to then enter industry.

I would submit that a very useful expenditure of public dollars at the margin would be to add two or three centres of excellence in, say, biotechnology and the life sciences, where we don't currently have one; to fund a universities health research council, with some budget for allocation towards these kinds of technology transfer projects; to expand the URIF program, which again is an industrial partnerships program; and I think generally to support an increase in the envelope for research infrastructure of OCUA, the buffer body.

We are at a sore disadvantage with, for example, Quebec, which puts more money in support of the direct grants received from the federal granting councils, NSERC, MRC and SSHRC, than does Ontario. You can see that Ontario universities' share of those federal grants received annually has been decreasing; Quebec's share has been increasing, because Quebec has in effect been matching the draw of federal funds to its universities from the granting councils. Ontario is losing ground here because it is not acknowledging the importance of research infrastructure and its own complementary role in support of research to help support our appeal to the national granting councils.

There are some good examples.

**The Chair:** Thank you very much.

**Dr George:** Thank you. Mr Chair, may I, as a parting comment, say that this will be my last appearance before your committee as president of the Council of Ontario Universities. I want to say that I've very much appreciated, over the past several years, your gracious, good-humoured and really thoughtful consideration and support of our briefs, and I wish you well in your present deliberations.

#### ONTARIO CHAMBER OF COMMERCE

**The Chair:** The next presentation is by the Ontario Chamber of Commerce, Ted McCollum, president; Don Eastman, executive councillor. Please make yourself comfortable. Mr McCollum, I presume?

**Mr Ted McCollum:** Good morning. Yes. Mr Eastman sends his regrets.

Thank you for the opportunity to address you all today. My name is Ted McCollum, and I am the 1995 president of the Ontario Chamber of Commerce.

By way of background, let me say that in Ontario there are some 4,000 vertical business associations credibly representing single-industry and trade groups. But the Ontario chamber represents all businesses in the province, with over 65,000 member companies and their thousands of employees in over 200 chambers of commerce and boards of trade from all regions of the province. The Ontario chamber network is the largest, most diverse and broadly based business organization in Ontario, encompassing all sectors, from major corporations to small family businesses to sole proprietorships.

I believe it's worthy of note that when we speak of "business" in this province, the vast majority of businesses are people like you and me, our neighbour who

runs the town pharmacy, the family who runs the convenience store on the corner, the machine shop in the industrial mall, the 20-person factory, the tourist innkeeper.

Our members provide us with a unique perspective on the realities of doing business in Ontario, and it gives us an accurate reading of the real state of business in the economy, our competitive position internationally, and the true barriers to growth.

The recession, at least as far as conventional definition is concerned, is over. Considering its depth, the recovery to date is anaemic and, can we say, jobless. The underlying structural problems which caused Ontario to take on water and list on the way into the recession have not been dealt with, and unless we make major repairs now, our ship will be in considerably worse shape to weather the next economic downturn.

From its inception to the 1984-85 provincial budget, Ontario had taken on \$30 billion in debt, and by 1990, \$39 billion.

As we all know, in the last five years Ontario has more than doubled its accumulated debt to a record level of probably \$124 billion, when you include the unfunded liabilities of the Workers' Compensation Board and the massive \$32-billion debt of Ontario Hydro, all of which the taxpayers of the province are responsible for.

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It's an interesting observation at this point that the current year's forecasted deficit approximates the interest payments we have to make on the accumulated deficit. In other words, without the accumulated deficit, the current revenues would just about handle our level of spending. Now, we can't undo the past, but just think where we could be today.

Make no mistake, the phenomenon of spending more than we make in Ontario did not originate with the current government, but they mistakenly believed that swamping the boat as we entered the recession would somehow enable us to climb out faster and easier; a bad plan, and the wrong direction.

So how far is the water now from the gunwales? Can we really withstand the impact of taking on more debt during an economic upturn? If so, how do we withstand the next economic downturn?

Earlier I said the debt level was "probably" \$124 billion, because the government has not set in place adequate accounting practices to include all debt in this calculation. We've heard a lot about that recently.

In spite of strong recommendations from the auditor to bring the accounts in line with generally accepted accounting procedures, the accounting does not account for unfunded liabilities and the sale of assets in the traditional manner. At very least, in recognition of the world-class stature of the accounting bodies in Ontario, our government should adopt and must adopt generally accepted accounting practices.

It's difficult to make good decisions without good data. The legislators of this province need accurate and complete accounting of government expenditures and deficits as they face tough choices on tradeoffs which must be

made, and the people of Ontario deserve accurate and complete accounting of government spending and deficit balances to make informed decisions on the record of their government. This is a critical time in the province's life, and we must demand full, complete and candid accounting of the province's fiscal affairs from our government.

Last year when I appeared before this committee I reiterated the chamber's view that we in Ontario had hit a tax wall, the point at which tax increases actually have a negative effect on tax revenues. Despite a government forecast for growth in the economy and a forecasted Canadian dollar rising above US\$0.73, the Treasurer predicts Ontario will add substantially to the debt through a period of growth over the next four years. Our boat, therefore, is still sinking. We in Ontario are still taking on debt faster than we're bringing in revenues.

The Treasurer's pre-budget documents take great pride in the relatively modest reduction in the rate at which the ship is taking on water. We applaud the Treasurer for his actions and appreciate more than you may realize how painful and difficult it has been for this government to make the decisions required to achieve those reductions. But the bottom line is that the boat is still sinking. The current trend is unsustainable. Either we begin to pump more water out or we'll ultimately sink.

Let me now share some observations with you. Despite the recent upturn in economic activity, we still have far too much unemployment, especially among young people. While public-sector funds are recycled into the economy, the only real net new source of funds is private-sector businesses and their employees. As we have reached the tax wall, higher taxes would drive business out of the province and more people into the underground economy, increase tax avoidance and tax evasion and encourage people to withdraw altogether from the workforce or perhaps not enter it.

Government spending versus revenue imbalance is unsustainable. Lenders are downgrading our provincial bond rating. We continue to borrow heavily abroad. You know, we're the richest province in one of the richest countries in the world, and yet we're sucking capital from the rest of the world to finance a lifestyle that we're not earning. The fundamental imbalance between the size of our public sector and the size of our private sector cannot be sustained and will not be tolerated by our global partners. Dramatic growth in our private sector is mandatory to avoid massive spending cuts.

Businesses today are extremely mobile. Businesses gravitate to jurisdictions which support a competitive environment, jurisdictions with a "welcome" attitude towards business. Likewise, people move and gravitate to jurisdictions which provide opportunity to raise their families in clean, safe and affordable communities where there are jobs.

We do not live on an island here in Ontario. In fact, we live in the open sea of a global economy. We need to be competitive here in Ontario. There is no such thing as a government-generated dollar. There is only one taxpayer. We need taxpayers to want to live and work in Ontario.

We need an attitude in our government that attracts businesses and helps them remain competitive and helps businesses start up and grow here. We need businesses to come to Ontario and grow here. Jobs create futures, jobs build communities and jobs create the tax dollars that support our health care, education and infrastructure services that make Ontario and our communities in Ontario such great places to live—jobs, by the way, created and sustained by the private sector.

Remember that governments can speak with legislation, regulation and taxes, but businesses and people respond with their feet.

No one knows how to stimulate business better than those in business. The starting point, the most important source of information, is private sector employers, people who have created jobs, who are creating jobs and who want to create jobs.

The perspective of other groups is certainly important—the academics, the government bureaucrats, organized labour—but theirs are peripheral viewpoints to what should be the mainstream of your information on job creation and job growth: those in business.

It is essential that you in government today recognize business as your greatest ally in our economic recovery and understand business by being able to put yourself in the shoes of the private sector entrepreneurs, the challenges that they face, the opportunities that they can bring to this great province.

The private sector does not need nor does it want handouts, but rather elimination of barriers across the province and across this country to doing business. It's ironic that, in this day and age when so much has been done to provide barrier-free environments for our physically challenged, we've been building barriers for our job-creating entrepreneurs.

Better design and fewer regulations, less red tape and less bureaucracy, coupled with a pro-business mindset, are what we need for Ontario going forward.

The recent opening of the Canada-Ontario Business Services Centre in Toronto is an excellent beginning. Creating a single point of contact for businesses in the province to get answers on federal and Ontario programs, services and regulations will not only assist business, but assembling all this information in one database in one place will uncover the enormity of it all. I urge the government to act swiftly to undertake the awesome task of review, simplification and reduction of wasteful overlap and duplication of services which slow down and confuse the businesses of this province and add so much unnecessary cost and waste to our government.

We believe there are opportunities for improvements in efficiency and effectiveness that will permit reduced government spending with a reduced level of pain so long as there is a substantial growth in private sector vitality. Therefore, the fundamental challenge facing government is to increase the vitality, the revenue production and the job creation within the private sector.

We do not come here to assess blame, but if we did, perhaps we should first point at ourselves. We've permitted the education of a generation, and the evolution of



public opinion, that does not grasp the importance of a healthy private sector to the growth, health and wealth of our Ontario society. We've allowed the concept of entitlement in our society to grow, isolated from an understanding and concern about where the dollars to pay for these entitlements come from.

As a result, we've evolved into a society where too often it's fashionable to take cheap shots at the private sector, as if businesses, faceless and nameless entities, were there for the sport, rather than the real truth, that business today is your neighbour making a living, a return on investment, and providing jobs in our communities. In the face of such an ill-informed public, the current economic mess was largely inevitable.

For more than two decades, those in the private sector focused on short-term adaptation and survival. In our pragmatic and practical way, when confronted with government initiatives damaging to our global competitive position, we focused on making them less damaging and rarely attempted to address the public pressure problem which drove the initiatives in the first place.

Our warnings about deficits went unheeded and now we have a pending disaster.

While the public was aware, for instance, that business did not like Bill 40, there was a limited understanding of why it's making Ontario business uncompetitive and why it's costing jobs in the province.

Today, I believe that as a result of the recent recession and our high unemployment and eroding job security throughout the province, there's a much better and deeper public appreciation of the need for private sector vitality and its inherent job creation.

There still needs, however, to be a better understanding of the expectations of a return on investment and a competitive environment as prerequisites to attracting and encouraging private sector businesses and job growth.

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As they say, you can't get out of the way if you don't see it coming. This last time around we failed. The result wasn't just damaging to the business community but damaging to the entire provincial economy and ultimately damaging to our ability as a province to provide quality public services. The wounds have gone far into the fabric of Ontario and everyone has been harmed.

Each of you is involved in the political structure of this province, I presume because you believe in Ontario and want to make our province a better place to live, to work and to raise families. These objectives simply cannot be met without a healthy private sector growing jobs and making returns on investment. Promises of a revitalized Ontario without a corresponding revitalization of our private sector can't happen. The result will be a disappointed, frustrated and angry electorate.

We both have a common interest. We must include the prerequisite of a healthy private sector in the revitalization of the province and reconcile the gap between the political realities of public opinion and economic reality. We both need to work towards an informed electorate.

As individuals, we all have strong views on the political process, and members of the Ontario Chamber

of Commerce have that same divergence of views. The Ontario Chamber of Commerce, as an organization, is apolitical. We are proponents of private sector growth as the only way for Ontario to regain its strong economic position and the only way to grow jobs in this province. This year, in preparing for the upcoming provincial election, we will be promoting the business fundamentals for economic health in all our communities across Ontario to foster a better understanding of these issues among our candidates and our electorate.

I've spent a lot of time not talking about the budget, at least directly. I've spent some time encouraging the government to clean up the accounting and put the numbers before the electorate and the politicians who must make some very difficult decisions. I've spent some time discussing the importance of a government attitude towards the private sector which encourages business to locate in Ontario and to grow here as the only sustainable solution to getting our fiscal house in order and creating jobs.

I've alluded to the need to reduce paperwork and eliminate red tape in government programs. In the last budget, the Treasurer provided for a temporary respite from the EHT levy for new hires. This gesture was well intended and appreciated. However, this is a temporary tax reduction and actually increases paperwork to comply. When business is diverted from productive activities to file reports, it dilutes management attention to basic fundamentals and weakens our competitive position. This budget should focus on reducing paperwork for business and concentrate on making our Ontario businesses competitive in our global markets.

In terms of cost control and reduction, we reiterate our call for comprehensive, independent, value-for-money audits on current and proposed programs.

We continue to recommend:

- Greater emphasis of making consumers aware of the real costs of health care through semiannual personal health services statements, increasing awareness of the cost and decreasing fraud.

- Rationalizing ancillary services in education, moving a greater number of dollars from the boardrooms to the classrooms.

- Social programs based on self-dependency rather than social dependency. Programs should be re-engineered to encourage transition to jobs part-time or lower-paying employment with government support during the transition.

- Consolidation of government services infrastructure in local areas to reduce overhead expenses and shared infrastructure services.

- A specific plan to further reduce direct government labour costs, including tighter controls on outside contractors and review of all employee-related expenses.

In conclusion, the Ontario Chamber of Commerce applauds the government's recent initiatives to make Ontario a province in which it is easier to do business. We believe growth in the private sector is absolutely vital to turn around this province. We are committed to taking that message to our local politicians and our friends and

neighbours, the voters of the province.

We understand you will shortly be looking to your constituents to confirm another term in office as their representative. Regardless of your political leaning, we encourage you to review the Ontario Chamber of Commerce business agenda and adopt it as the key to turning this province around and growing jobs.

We need to look at this next Ontario budget as an opportunity to show the global business community, the global investment community and the voters of Ontario that the government of Ontario is truly open for business and believes that business growth and job creation are the keys to financial stability for the people of Ontario and for our government, all of which is respectfully submitted.

**Mr Phillips:** Thank you very much for a thoughtful and kind of a visionary proposal. I'll start with the accounting one for a moment, just because it's an area where our Provincial Auditor, who is the independent source of advice for us and the one that certainly we in the opposition have to rely on, has informed us that the way we're getting the numbers does not reflect "financial reality" is his term, under any accounting rule, and that his advice to us is that we should be looking at something \$2 billion to \$2.5 billion higher if we want to track the deficit. Has the chamber done any work on looking at the finances of the province, and does the chamber tend to use the Provincial Auditor's numbers as the basis on which you look at the province's finances?

**Mr McCollum:** We tend to listen to what the auditor has to say. Certainly the auditor is much closer to looking at numbers than anybody outside of the people in the Ministry of Finance, and we have to respect the opinion of the auditor. That's, after all, why I presume our government has decided to hire the auditor.

My other point is that we are one of the highest-regarded jurisdictions in the world in terms of all our services and our abilities and the people who live and work here, and we have very well-thought-of accounting bodies within the province. I think it's incumbent on the government to reflect that degree of professionalism and the competence and completeness in disclosure of accounts. It's always nice to try and think of how we might move some dollars over here if we don't want to talk about them, but in the end I think all governments, regardless of which party is in power, should say: "This is sacred. We are going to do things properly. We are going to have full disclosure." And if our auditor says that we must do something, we can get a second or third opinion, but in the end I think we have to come around to what we might call full disclosure and the use of generally accepted accounting practices.

**Mr Phillips:** I agree with that.

The chamber is quite concerned about the deficit and getting the deficit under control, I gather from your proposal here.

**Mr McCollum:** Yes.

**Mr Phillips:** Do you have a view on where the priority should be in terms of the deficit? I think we're seeing one party that's suggesting that perhaps it could

cut taxes by \$4 billion or \$5 billion. I think the government's assuming we'll kind of grow our way out of the problem. I think that is perhaps a suggestion. And we're in between, as usual. Has the chamber any advice for us?

**Mr McCollum:** It doesn't seem you've got many positions left.

**Mr Phillips:** That's right.

**Mr McCollum:** We've got growth and we've got cutting and in the middle, you know, where the chamber might be.

**Mr Phillips:** And just in terms of on the tax side, is there any tax area that the chamber feels is particularly onerous on the business community that one could focus on, that you would say is very important?

**Mr McCollum:** As you might appreciate, with such a broad representation of business across the province, there are all kinds of views. We have people who have voted for all kinds of constituents and all kinds of ideas across the province.

Generally speaking, I would say that when we're talking about business today in 1995 relative to the way we conduct our day-to-day activities and look back to the way we did it in 1985, there's an awfully big difference. There's no business that can stand up and say, "Our customers have told us that they don't care if we give them the services that we gave them last year," or "We don't care if we've got the quality in the products that we had last year." What they're saying is, "Do it for less."

So businesses have totally re-engineered and restructured how they operate. The bureaucracies which existed in business, if you can call them that, are disappearing. They're becoming very flat organizations. They're becoming very customer-oriented. As I mention in here in reference to education, they're moving their dollars from the boardroom to the street. They're trying to use the new technologies, moving ahead quickly, making those kinds of investments, because there are not the margins that there used to be in business, so you can't waste any more; you just have to buckle down and get the job done. People in business are thinking ahead: "Look, I still have to provide the service that I did last week or last year, or 10 years ago," although the services may have changed. "I still have to provide that, but I can't afford to spend the money delivering the service that I did before, so I've got to find an easier way to do it."

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So when we talk about "Where do we go with the deficit?" we're suggesting that we need to do the same sort of soul-searching, and how do we provide the service for less money? How do we do that? It's a huge question. Each industry and each company has spent thousands of hours looking at this, and the reason they've had to is because if they don't, they're out of business.

If you go to the employees of your company and you bring them around the room, which they do today—these are all empowered businesses we have today; we don't have presidents up here wielding a gavel—and we say, "Look, folks, here's the way it is; if we don't get our costs down to a competitive level by"—pick a date—



"June 25, we're out of business; now, are we going to try and get it down or not?" you'll find that all of a sudden some really great ideas come out on how to trim costs.

So we have to be very conscious of driving the deficit down and understand that we all appreciate the services that are provided by the various social agencies within the province, but let's consider that we have to drive that.

Any one piece of legislation?

**Mr Phillips:** Tax.

**Mr McCollum:** Taxes. Once again, I think no, I think we're too broadly based an organization. Some people say, "We'd like to cut the surcharge on income tax," and somebody will say, "We'll live with that but we'd like this one removed." I think the whole name of the game, what happens, is that if you shrink the cost burden, some of these other things go away, if you can encourage businesses to grow, provide them the environment which is a friendly environment for them and welcomes them and helps them get through the red tape and just cut through it.

I was saying to somebody the other day, we've got this Ontario Investment Service and we've got this Canada-Ontario Business Services Centre, and these are all great things that help, but what happens if a business decided it actually wanted to come into Ontario? How long would it be from the time they made that decision to the time they went all through the municipalities and argued about water and sewers and whether people like the industry and whether the building should be brown and all this kind of stuff, till they actually got the building up? Maybe it's the next generation. It's tough.

**Mr Carr:** Thank you very much for your presentation. In particular, some of your comments about how the public needs to be informed were very good. I agree with a lot of things you said, obviously, and we've incorporated a lot of those.

I was thinking, one of the reasons we've come out with our plan a year in advance was similar to what you did sitting down with your employees. We're saying, "This is what we believe in." Essentially it's that to cut spending, cut taxes, will create jobs. It's a very bold plan; it's not tinkering and trimming. We've said to the people of this province, "Here's what we stand for; this is what we'll do." As you may have heard, Mike Harris said the reason is that we not only want to win an election, which we do, but we also want a mandate for change.

What we're doing with the public in this province is similar to what companies have had to do, and we agree we can do more for less. Whether we win or whether the Liberals win or whatever happens will depend on what the public ultimately decides, but we've laid it out there very clearly.

While I appreciate that your membership can't comment on any particular philosophy of the tax cuts, how we differ from, for example, a federal Liberal program in infrastructure—give the money to the government to spend and provide the infrastructure—ours are big tax cuts that we'll give to the individuals who will then be able to go out and buy a fridge, stove or whatever. We believe the public having money in their hands is better,

and our tax cuts will give the average household of \$50,000 some \$4,000 over three years.

In terms of what we're going to do—our program of workers' compensation, Ontario Hydro, the red tape, the employer health payroll tax—all the things we've called for doing are important, but in an overall theme what we believe is that if we put more money back in the hands of the people of this province and the taxpayers, they will then go out and spend with your members, whether your member is a menswear store or a ladies' shop or whatever.

Speaking in the broad sense, in the province of Ontario now, having looked at our spending and our taxing, do you believe that we have a revenue problem or do you believe that we have a spending problem here in the province?

**Mr McCollum:** The level of revenue I believe is about maximum, because we've sort of hit a tax wall. If you say, "Do we have a revenue problem?" well, if all of a sudden you could wave a wand and get double the revenue, you wouldn't have a cost problem. But right now, realistically, it's the way any company looks at: "What business is on the table? What's my backlog? Where am I going to get my revenues from? Where is this money going to come from?" And then you say, "Do I have a revenue problem?" No, I've got just about all I'm going to get. So now I've got a cost problem: I've got to get my costs in line with the revenue. If our revenues increase, hopefully we'll decide that we're going to pay down the debt with that. But frankly, I'm not so sure where we're going to get more revenue.

**Mr Carr:** So it's a spending problem.

**Mr McCollum:** I think it's probably the cost control side that we need to look at.

**Mr Carr:** The problem we—

**The Chair:** Mr Carr, you've actually used up three minutes. I just want everyone to know, because I like to do this from time to time, that when the presenters give lengthy answers, which are important and which we want to hear, sometimes it eats up a lot of time. I just want to move things along, so we're going to go to Mr Sutherland.

**Mr Sutherland:** Just a quick comment on your accounting comments: We have followed what the auditor has asked in terms of the public accounts going to an accrual basis. In your presentation, though, what you're suggesting is that the WCB and Ontario Hydro debt should be included in that, so when you come up with the probable \$124 billion, you're including WCB and Ontario Hydro. I'm not aware of any province that would include those types of debts into the generally accepted debt figure, but I do know when you say from what occurred up to 1984-85 and up to 1990, you're not including in that \$39 billion WCB and Ontario Hydro—

**Mr McCollum:** That's true.

**Mr Sutherland:** —where most of those unfunded liabilities and debts did occur before 1990.

My only other comment is regarding your comment about business getting cheap shots. Well, join the politicians, I guess, because we get a lot of them too.

**Mr McCollum:** I understand, and you're quite right. The real problem is that, as taxpayers in Ontario, whether you put it in this bucket or that bucket or another bucket, and say, "This isn't comparable with Alberta or somebody else"—good, let's make it all comparable.

**Mr Sutherland:** Sure, apples and apples.

**Mr McCollum:** But then let's remember that there are these other little buckets over here, that we should put up our hand and say, "Oh, by the way, there's some over here," because as taxpayers in Ontario, some day we're going to have to pay that. That's really the point.

You're quite right. Some of the numbers may not be comparable, but then some of the numbers are ranges. Because of the way we do our public accounting, we don't follow necessarily a way that a business might do it and it becomes a little difficult for people to figure out exactly: "What are we talking about? How much is it?" And anyway, can you tell me how much \$124 billion is?

**Mr Norm Jamison (Norfolk):** Thank you, Mr McCollum. You're quite right. One of the problems the Treasurer pointed out when he made his submission to the committee here was that we at this point are waiting with bated breath, of course, for the fallout as might happen from the federal budget. Again, we're dealing in partnerships, right down through to the municipality, at the various government levels.

I know it's of pretty good concern to him and I just wanted to indicate that it's a concern, because certainly if—the traditional word of "offloading" is used. Each level has a problem with the other level at that point, certainly being a partner in a number of areas.

You've mentioned the Ontario Investment Service and how that would help to really define further the amount of red tape that's out there. I believe red tape is a very important issue, an extremely important issue, and to that end I worked on a bill, Bill 187, catchphrased as Clearing the Path. What that bill does, I think combined with the Ontario Investment Service initiative, is that it really provides an umbrella piece of legislation that will finally allow government to take a course in unifying tax numbers and combining forms and reducing the amount of paper burden, also, at the same time, allowing governments to work with each other at various levels, again using a unified tax number.

I think this is beyond taxes, which is a major question, of course, but I believe that's a major concern of small business in this province. How do you see that issue being addressed? I believe it has to be addressed somewhat in a pragmatic fashion.

**Mr McCollum:** First of all, you say that the province of Ontario is worried about what the feds might do and then down to the municipalities. Well, think how we are, as taxpayers. There's only one taxpayer and we've only got so much money, and we just have these different levels of government. Part of what I see happening, and I congratulate those involved who did it, was this Canada-Ontario Business Services Centre. You are putting everything in one spot, so now people who are assembling the data will be able to say, "Gee, didn't I just see that over here, and didn't I see that over there?"

But think for a moment, when we start talking about how we can streamline things and red tape, how much time governments within our jurisdictions spend arguing with each other over how to spend the same dollar and whose dollar it is.

Particularly, I get from the municipalities what I was saying: if some poor factory decides that, yes, they think this is a pretty good spot and maybe they'd like to move their families here, and then where do they go? I understand that the government of Ontario has some mechanisms to try and smooth the way through, but if you were down in the municipalities and you were trying to put in a factory, what you're reading in the media down there and what the councils are arguing about is that they don't want you: "You're going to put too much strain on our sewer system, sorry. And worse, you might attract more families into the neighbourhood. We wouldn't want that. What would happen with all our services? It would cost us more money. We'd have to put in more roads."

All I'm saying is that the whole idea here is, let's try to create an environment that says, "Hey, come on in; we'll fix the problems; we'll put in the roads if we have to," but that at least we're growing, at least we're doing something and the province is taking off.

Yes, we do worry an awful lot about the taxes at different levels and the amount of time that's spent shuffling and fighting and that sort of thing. It would be nice if we could wish that one away. I think there is a lot of understanding out there now, particularly since the recession. A lot of people are thinking around what really it's going to take to get us moving again, and part of that is working together and not putting up with all the nonsense of infighting and that sort of thing. Sorry for the long answer.

**The Chair:** Mr McCollum, I'd like to thank you and the Ontario Chamber of Commerce for making a presentation before the committee today.

**Mr McCollum:** Our pleasure.

*The committee recessed from 1213 to 1404.*

#### AUTOMOTIVE PARTS MANUFACTURERS' ASSOCIATION

**The Chair:** The first presentation this afternoon will be made by the Automotive Parts Manufacturers' Association of Canada, Neil De Koker, president, and Elizabeth Mills, director of policy development.

**Ms Elizabeth Mills:** I'm pinch-hitting because my president has been struck with strep throat and the flu today.

**The Chair:** That's most unfortunate. You have obviously made yourself comfortable. I'll remind you that you have 30 minutes within which to make your presentation and field questions from the committee members. Please proceed.

**Ms Mills:** I'd like to thank you for the opportunity to provide this input to the budget development process. During my remarks I will follow the materials that have been distributed today and I'll be happy to answer your questions following my remarks.

I will describe the size and the importance of the automotive parts industry during my introduction. I will



then present four themes that are of strategic importance to my industry when speaking about governments, budgets and change. I will follow with some comments that we hope will guide your deliberations.

The Canadian automotive parts industry is important to the economy of Ontario. It provides over 149,000 manufacturing jobs in Canada and \$56 billion in sales, 120,000 vehicle retailing jobs with \$40 billion in sales and 260,000 aftermarket sales and service jobs with \$12 billion in sales. These automotive sectors combined represent over 520,000 jobs and over \$100 billion in sales. Approximately 90% of our automotive parts industry in Canada is located in Ontario.

The Canadian automotive industry is Canada's largest manufacturing industry at 15% of the total. We are Canada's largest exporter, with one third of total exports, where 80% of the automotive industry production is exported, primarily to the United States.

The Canadian automotive industry is competitive, holding 17.5% of the assembly capacity, up 3% since 1981, and 12% of the parts capacity, up 6% since 1981, even though the Canadian market represents only 9% of sales.

Our performance over the past decade has responded to change and we are succeeding. From 1981 we experienced a period of high growth and inflation, passing on price increases to the customer. During this time productivity improvements were negligible. We lost ground to US and Japanese counterparts. During the recession period of 1990 to 1991, we lost 54 companies in Ontario and 20,000 jobs. Productivity improvements were the key to those that survived. Major efforts at cost reduction and productivity improvements have paid off and resulted in a much stronger industry.

Our performance has improved in other areas as well. Major increases in investments and machinery and equipment are taking place to upgrade existing equipment in our facilities and to expand production with new equipment. Yet more investment in new bricks and mortar is taking place outside of Canada.

What has changed in the automotive industry? What are the realities and drivers of profits in this important sector that enable the survivors to be more competitive and assist in recovery? We feel our answers are applicable to government. Our message here is for government to examine its own drivers of success and promote those aspects of its operations that enable government to be more competitive and assist us all in recovery.

Strong profits are needed to finance increased responsibilities of full-service suppliers in our sector. The sources of profits have moved, though, from the sales price increases in 1984 to internal cost reductions and purchased materials economics in 1994. The examination and aggressive pursuit of change in order to survive has been driven within our organization.

We feel government should do the same. Government should be doing more with less, for less—a familiar phrase. Government's efforts in cost reduction and productivity improvements are essential to the long-term survival of a healthy Ontario.

Efficiency improvements of at least 6% per year are required to stay even, meeting customer demands within our industry. We feel governments should also achieve this goal. The demand for more from your consumers must have an internal response. Continuous improvements and strategic alliances are key to survival. These new types of relationships and standards should drive government's day-to-day operations.

We are rationalized and fully integrated in the North American industry due to the auto pact, the free trade agreement and the NAFTA agreements. The industry is highly capital-intensive and requires major investments to participate: \$15 billion has been invested by assemblers in the past decade; \$9 billion has been invested by the parts industry in Canada in the past decade.

Our competitive pressures are relentless. Assemblers demand annual price reductions from suppliers to remain competitive with their global competitors. The average supplier reduced their prices by 3% in 1994. At the same time, assemblers are demanding more costly services from their suppliers. Our experiences are not unlike the demands you have faced and will continue to face.

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Major material suppliers, steel and plastics, have increased prices significantly in the past two years. This has placed a major squeeze on parts company profits, especially those that are primarily make-to-print parts suppliers where materials cost is a high percentage of production cost, and over two thirds of the Canadian auto parts industry are such small tier 2 and tier 3 suppliers. Continuous improvements everywhere are vital to survival.

In the face of these pressures, consolidations are continuing which provide economies of scale to be in business. Much more consolidation is expected in the future. Where can government consolidate its services with other levels of government and within government departments is a question we ask.

What does it take to make the Canadian automotive parts industry grow in Ontario? Perception is reality. The perception is that Ontario is no longer a good place to invest. The perception of Ontario as a good place to invest has been eroded in recent years due to a number of factors:

- The pro-union, anti-investment changes by Bill 40 to the Labour Relations Act.

- A poor labour-management relations environment, with unions having a disproportionate amount of influence over government-labour-management committees.

- The largest budget deficits in Ontario history, which almost guarantee that there will be tax increases.

- Utility rates that were a major advantage 10 years ago but are no longer, although finally stabilized, now put us on par with New York state, which is the most expensive state in the United States for utility rates.

- Costly social programs including complex pay equity, fast employment equity timetables, workers' compensation costs that have increased dramatically and over \$11.5 billion in unfunded liability, and costly health and safety training mandates.

—A lack of availability of competitive capital.

—Very high personal tax rates that inhibit a global competitor from importing people from around the world into Ontario.

At the APMA four themes are recurrent messages from our members. We believe strongly in the need to communicate these four themes to you and to gain your commitment to act whenever and wherever possible in their direction. They are harmonization, sustainable government, competitive taxation and competitive regulation.

The federal government, during a recent examination of regulatory burden, has estimated the cost to industry associated with duplicative services and administrative cost of regulatory burdens at over \$50 billion in Canada.

Ontario does not need to be the leader in specific areas of either social or economic legislation. The Ontario government should harmonize its approach to those of competing jurisdictions and to the directions of other provinces. More specifically, we wish for you to continue to move towards a harmonized sales tax system and to examine other areas of regulation, in particular environmental and transportation, where Ontario and the other provinces and the federal government still offer disincentives and higher costs to the global and international companies operating in Canada.

We need to prioritize which services and programs are absolutely necessary for government to provide and deliver those in the most efficient manner possible, including aggressive sourcing approaches where both public and private sector groups bid on the basis of cost and quality for the opportunity to deliver a program or service. This will lead or assist to lead in the elimination of the deficit and will reduce the provincial debt.

Once the required level of government service is identified and the plan for reduction in expenditures is in place, we need to put in a tax regime, including personal, small business and corporate taxes, consumption taxes and payroll taxes, which is at a minimum competitive with other jurisdictions and which helps to stimulate economic growth.

For many years, governments have layered on additional regulatory programs, many of which have a direct impact on the competitiveness of business. We need to eliminate unnecessary regulation and streamline the processes for those regulatory objectives which remain valid to ensure that they provide business with the greatest flexibility to comply and the lowest costs that allow business to be competitive with other competing jurisdictions. This must include a process which evaluates those regulations for their competitive impact before they are promulgated.

What should be the focus of the government's action in the budget?

Decrease public debt burdens: Our current level of debt has a negative impact on the health of Canada and on Ontario industry and on the prospects for the future in investment, economic growth and job creation. Industry is extremely concerned about the inevitability of becoming a target for increased taxes.

Make Ontario an attractive place to invest: Our industry is investing elsewhere. The percentage and type of investment made in Canada in machinery and equipment versus bricks and mortar is some evidence of the clear path that has been made away from investing in Ontario in the past four years. Companies have made investments outside of Ontario due to the uncertainty about the business climate in Ontario. Several companies have stated specifically that of the new jobs they have created, because we are in a growth industry, only 20% have been in Ontario and 80% have been outside this province.

Let private growth, not Jobs Ontario, increase prospects for employment. Unemployment will fall only if economic growth continues and there is improvement in the after-tax profit margins. The generation of falsely supported public and private sector jobs is costly and does not enhance the long-term viability of any industry sector.

Understand and limit the impact of the government cost squeeze: Payroll taxes and supplementary labour benefits, as well as regulated prices of utilities, telecommunications and transportation services have all increased. We in industry are doing more for less and with less. Government has to do the same. It can be done. You are in a position to take a first step in this area and to start returning confidence in government leadership and in Ontario.

Establish clear fiscal priorities: Government must create a fiscal and legislative environment that encourages business to innovate, invest and grow in Ontario. Reduce government overhead. Your income is down. You are at your credit limit. A change in operating style is required for you to survive. The drivers of profit within our industry are examples of directions for you to take. The tough decisions that are needed today are long overdue. You must reduce your costs to remain competitive.

The corporate minimum tax: Introduced against the advice of the Fair Tax Commission and of the business community, it sends a wrong message to investors and should be removed.

Recognize Ontario as an organization within a global market: We are a global industry. We compete with companies from all over the world in Ontario. Any costs that make us less competitive as a result of operating in Ontario will result in lost business opportunities and some movement of companies out of Ontario to remain competitive.

No tax increases: Do not consider any kind of tax increase that could exacerbate the recovery of the economy and dampen improving investor spending and consumer spending.

Develop programs with appropriate stakeholders: These programs should increase business, government, academia and labour cooperation where appropriate. Do not set up programs that provide power to stakeholders when nothing is done to facilitate working together towards common goals.

The current partisan shift in the balance of power has become a significant issue for business. Without balance and effective leadership, union-management boards of



agencies and commissions operate inefficiently in a vacuum void of common goals and interests. There are many examples.

Remove uncertainty and improve predictability: The continuous uncertainty about tax increases and further demands on companies and individuals is reducing investments in Ontario. What Ontario needs is a stable working and investment environment. This environment, generated by a balance in labour-management views, will re-establish Ontario as a province and global manufacturing location in which to invest. Without a substantial reduction in the aggravation of the current investment climate, Ontario will struggle needlessly on internal issues instead of cooperatively on long-term recovery.

The APMA strongly feels that a balanced budget is vital to our long-term survival. We must be competitive with other jurisdictions where our competitors are located. A positive and competitive business environment includes the following: competitive personal and business taxation levels; a visible and harmonized tax system; an environment that promotes labour-management cooperation, not aggravation; government policies that encourage entrepreneurship and the creation of capital; investment tax credits and accelerated depreciation that promote investment; and social legislation that is reasonable and has been assessed under a rigid cost-benefit analysis.

The APMA supports lower taxes, clear cuts in government spending in a variety of areas, the dismantling of barriers to job creation and the promotion of economic growth, driven by a balanced budget.

The APMA supports giving up grants to business, such as the sectoral partnership fund and the sectoral council training program, to help contribute to a greater deficit reduction. We must all sacrifice for the common good and objectives of sustained economic health.

In order that we remain Canada's leading manufacturing sector and the backbone of Ontario's economy, government policies and programs must support the industry's viability, growth and global competitiveness.

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**Mr David Johnson:** Thank you very much for those comments. Just looking at one of your closing paragraphs, I don't think it could be said better, in that your organization "supports lower taxes, clear cuts in government spending..., dismantling of barriers to job creation, promotion of economic growth and driven by a balanced budget." In my estimation, that's exactly what is required in the province of Ontario.

We were told yesterday, for example, by the Canadian Tax Foundation, I believe it was, that the personal income tax—and Ontario would be highest in Canada—is the highest of the G-7 countries as a proportion of GDP. Property tax, by the way, is the highest in Canada—and, again, Ontario would fall into that category—of all the two dozen OECD countries in the world.

There is a good indication of the level of taxation, and that's why we're proposing to reduce the personal income tax by \$4 billion. Government spending, which has essentially doubled in the last 10 years here in the province of Ontario, needs to be reduced dramatically,

because it's simply not sustainable. We're proposing a \$6-billion cut.

I notice that you've indicated that in your business one of your suppliers reduced prices by 3% in 1994, and I was just doing a quick—

**Ms Mills:** No, that's an average for the industry.

**Mr David Johnson:** If the province of Ontario was able to reduce its expenditures by 3%, that would be over \$1.5 billion a year, about \$1.7 billion a year, I guess, which would be in the vicinity of \$5 billion over a three-year period. You also have noted efficiency improvements of 6%. Again, if the provincial government could make efficiency improvements of 6%, that would be an even greater reduction.

**Ms Mills:** It enables that those other cost reductions then become more feasible.

**Mr David Johnson:** Is that the range your industry feels government should achieve?

**Ms Mills:** We're giving you the examples from which we base ourselves. We know, for example, that General Motors's price reductions are much higher than 3%. They have received 5% annual price reductions from their suppliers, 15% in the last three years. That's certainly not what we would expect here, but the range is not important at this point. Certainly, 3% to us doesn't seem far beyond, but it does raise the serious kinds of numbers that you have sort of figured in your head.

There is the serious belief that the cost of being in the business of government is much too high and that if industry, in a very painful period of 10 years, has been able to find different methods from within its own organizations to drive its success and survive, then government as an organization, as an operating structure can also learn from those lessons. They were very painful to this industry sector. I think that government should be aware and acknowledge that some of those painful periods might be coming too.

**Mr David Johnson:** What worries me is, as you've indicated, that the investment is in machinery and equipment over the past period of time, but through your industry the investment in bricks and mortar has been much lower. I'm just wondering what that means for the future if your advice is not heeded, in your estimation, and deficits carry on, spending carries on, taxation remains at an uncompetitive level.

**Ms Mills:** I think there have been a number of studies where you can have Tennessee, Ohio and Michigan all wind up with Ontario in terms of costs. We have a tremendous workforce here in Ontario. We have some high workers' compensation costs. There may be benefits provided by individual states in terms of attracting business, but when it comes right down to it, the perception of a business making a decision to invest here relies on a subjective assessment of the environment, and the environment is not positive for a business to be here.

Certainly, two corporations I can mention to you, Long Manufacturing and the Woodbridge Group, have placed plants right on the other side of the lake and the river, just near Detroit and on the other side of Lake Ontario, simply because of the fact that they do not wish to place

those jobs here, they're too expensive to put here. They're not positive that it's going to be a good place for those jobs to be maintained.

**Mr David Johnson:** Taxation is part of the problem, but another part of the problem is the regulatory situation in the province of Ontario. You mentioned Bill 40, for example, as one aspect. You've mentioned employment equity, the costly employment equity program and the complex pay equity legislation. How important are they in the scheme of attracting investment into the province of Ontario?

**Ms Mills:** The association and our members don't disagree with what is intended by those regulatory examples. There are good sections of Bill 40, there are some clear goals within the employment equity legislation and within the pay equity legislation that certainly need to be achieved, but realistically the timetables for employment equity are very fast. The health and safety mandates that have been assessed and provided to the industry to become trained are very costly to industry, and those are the kinds of cost-benefit analyses that we want you to be able to recognize when you introduce a regulatory addition to an environment that basically handicaps our ability to use those dollars to invest more wisely in the creation of additional jobs. No, we're not against those programs; it's just a question of how you implement them and how long you take to provide industry the opportunity to adjust.

**Mr Sutherland:** Ms Mills, you provided us with some of your members listed on—

**Ms Mills:** The brochure actually lists all of our members on the back of it.

**Mr Sutherland:** Okay, members on the back. When I look at the examples in my riding and in my area here that have expanded in the last little while—Standard Tube, Mastico, Lear Seating in St Thomas, Kelsey-Hayes—I guess the point I'm trying to make is that a significant number of your members have done expansions in Ontario and hired more employees in the last couple of years, and with the tremendous amount of investment by the auto assemblers, over \$5 billion in the last three to four years, it would seem to me that Ontario must be a good place to invest or these people would not have been making these investments in the last few years and continuing to make the recent investments that Toyota is making and other companies are making. So I guess I would ask you to—based on your presentation versus the record of these companies making significant investments here in the last couple of years.

**Ms Mills:** Just two comments, really: one is that, yes, Ontario and the Ontario parts industry in Ontario are doing very well. We've recovered 10,000 jobs in recent years. But what I can tell you is that there are companies which only put 20% of their growth here in Ontario; the other 80% is not in this province. For example, Woodbridge Foam has placed 400 jobs in Michigan and Ohio in the last 18 months that are not in Ontario specifically because of the way they feel about the environment. They are shipping their parts from the United States into Whitby because they don't want to be here.

With respect to the assemblers, yes, I'm sure that

they're going to invest \$5 billion. They've already invested a tremendous amount of money here. They've got a long history, back to 1965, as to why they're going to continue to operate here. I think that Ontario certainly does compete on a cost basis. I've certainly provided that example to you.

It's a question when you come to a company whose employees are looking for expansion, a smaller company. The choice for a small company which is about to experience that kind of growth, once you've gone through all the cost basis, you have to make a subjective decision. Right now the feeling is that you do have a better choice to not locate in Ontario 80% of the time.

**Mr Lessard:** A number of your conclusions are very general and difficult to disagree with: like competitive tax levels, an environment that encourages labour-management cooperation and things such as that. However, here we need to make some specific recommendations. One of your suggestions is to eliminate unnecessary regulation. So what sort of recommendations could we make about regulations that you think are unnecessary?

**Ms Mills:** Unnecessary regulations? There's a program right now with the federal government, it's an act that's going to be put forward called the Regulatory Efficiency Act. It's an act that's being driven by the federal government which allows companies to work within a standard of a regulatory act that says, "Let business, within its own operating environment, define its way of meeting the compliance standard; don't prescribe within a regulatory framework the way in which business must comply," because what you do is eliminate not only the possibility of a business complying with an environmental piece of legislation, but you also make it cost-inefficient for them to do so; they're taking dollars out of their companies in order to be in compliance. Take that kind of working framework and apply it to the way you might review some of your own regulations in Ontario.

We've also identified other costs that we would like you to take out, the sectoral partnership training fund. Where we are in cooperation with labour-management on that program, we have achieved success with 25% of our industry; 25% of our industry because they are CAW members. The other 75% of our industry is either non-unionized or doesn't belong to the CAW. They are cautious and hesitant and sometimes outright refuse to participate in a program that relates to the CAW. There are inappropriate stakeholder decisions like that which make the sectoral partnership training fund a program that is not reaching the breadth which it's designed to.

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OTAB: We have some serious concerns about the cost-efficiency of its \$1.2-billion mandate and the way it's sector-wide as opposed to industry-specific. If you eliminated that kind of investment and turned it around to training tax credits or more in a balance in that direction, we would be much more able to provide examples of automotive parts companies whose competitors are down the road defining their own methods of training and in training internally because they don't want to take advantage of a generic sector-specific program that's not going to have a competitive advantage to them.



**Mr Kwinter:** I'd like to follow along on the issue that Mr Sutherland raised. I think this is one of the problems in dealing with the government, in that the Treasurer was here and he held up this list and he said: "Look at this. We've got \$5.5 billion of investment coming into Ontario in the automotive sector. That is an indication that we must be doing something right," when in fact, if you take a look at that, you have to understand that the automotive sector has got a huge investment in Ontario and these are relatively small amounts of money and it's add-on investment to protect what they have here and to service a burgeoning car market.

But if you take a look at the greenfield operations—and this, I think, is a point that you were making, BMW, Mercedes—not only did they not come to Ontario, they didn't even consider Ontario. They went into the deep south of the United States. I think this is one of the big problems that we have, because the government looks at it and says: "Gee, look what's happening. We must be doing something right and all these gloom-and-doomers don't know what they're talking about, because look at this investment."

**Ms Mills:** It's the examples that you can't measure which become apparent—

**Mr Kwinter:** Exactly.

**Ms Mills:** —but once you have a conversation with an industry sector, it's the stories that you hear about people who don't invest in Ontario.

**Mr Kwinter:** That's the point that I'm making. The other point, of course, is that given the size of the automotive industry, a \$200-million investment this year doesn't weigh in the consideration, when there's a downturn, of closing down the plant, even though they made the investment of \$200 million two years ago or three years ago, and it's the long-term benefits and the long-term employment and the long-term production that we really have to gear to. I know, for example, that most of the small automobile parts makers use tools and dies provided by the assemblers and they can ship those any time they want, and they do, depending on their security of supply. Do you have any comments on that?

**Ms Mills:** I guess from our perspective that relates to the environment which we have in Ontario. When you have a situation where a company may be in jeopardy in terms of being able to deliver a just-in-time product to a larger assembler, that assembler will not wait for a dispute to end, will not wait for some other resolution mechanism to be put in place. He cannot shut down an assembling program for the sake of a bumper part that's not going to arrive on time. He will pick those tools up out of the plant because he owns those tools, he will either move them out of the country or out of the province or he will move them to another site where he can then produce those parts. If that tool leaves this province, the likelihood of that company being able to compete and get that tool back or that business back is not high. The jobs will not be there.

**Mr Kwinter:** In conversations I've had with some of the people at the automotive parts association, they talk about Bill 40 and the impact that it has because of this very nature. Do you have any ideas of what changes you

would suggest should be made to it?

**Mr Randy R. Hope (Chatham-Kent):** Scrap it.

**Ms Mills:** Did somebody say, "Scrap it"?

**Mr Hope:** That's what you guys would say, so I just thought I'd say it for you.

**Mr Kwinter:** No, I think she said that she wouldn't scrap it, that there were some good parts to it.

**Ms Mills:** I didn't say it. There are parts within Bill 40 that we have some serious contentious discussions about. If one were to consider scrapping Bill 40, I think we would probably be in a position to start a large argument that wouldn't be productive for business, government or labour. There are parts of Bill 40 that business does agree with.

For an example of a change, what we would like to see is a secret ballot introduced. We would like for companies where there's a petition provided for certification, if it's 55% for the union and 40% against the union and the 40% need to have their voice appropriately heard, a secret ballot might just be the way to do it. There are provisions within Bill 40 that are a red flag for business and a red flag for labour, and I think the argument that was initiated in 1992 has not been assuaged with time. In fact, it has only continued and exacerbated the problems and belief that business has that Ontario isn't a good place to invest.

#### ONTARIO CONFEDERATION OF UNIVERSITY FACULTY ASSOCIATIONS

**The Chair:** The next presentation this afternoon is by the Ontario Confederation of University Faculty Associations. Make yourselves comfortable, please, and identify yourselves for the purposes of the committee members and Hansard.

**Dr Emily Carasco:** My name is Emily Carasco. I am the president of the Ontario Confederation of University Faculty Associations, otherwise known as OCUFA. We represent over 11,000 academic staff in Ontario's universities. We're pleased to be before you today during your pre-budget consultations. With me is Ms Marion Perrin, the executive director of OCUFA.

There are two projects currently under way that could severely undermine post-secondary education in this province, and it is on those two projects that I'm going to focus my remarks today. We very much want to ensure that this committee is aware of the potential negative consequences of these two projects, the direction that they are proceeding in right now.

The first of these is the Ontario Council on University Affairs review of the way in which Ontario's universities are funded. This review is under way at the request of the Minister of Education and Training. The second potential disaster for us is the discussion paper put forward by the federal Minister of Human Resources Development inaccurately, from our point of view, entitled *Improving Social Security in Canada*. It is with a sense of irony that we note that the Ontario Minister of Education and Training has publicly declared his opposition to the proposals of the federal minister because of the dire consequences for post-secondary education in Ontario. However, if the Ontario minister accepts the dominant

thinking of his own advisory body, OCUA, it may result in similar harm to the universities of this province.

Let me begin with the OCUA review. It was in November 1993 that the Minister of Education and Training asked OCUA, the advisory body to the ministry, to conduct a review of the way in which Ontario's universities are funded. We, OCUFA, the Ontario Confederation of University Faculty Associations, have responded to the discussion papers that were put out by OCUA, the council, and we have attached to our brief today a copy of our brief to OCUA. I'm not going to go into it in too much detail but I do want to express some of the concerns that we have about both OCUA's discussion papers and the potential harm if they proceed with the models that they have suggested in their discussion paper.

The council, OCUA, put out both a discussion paper and a number of research papers. In their discussion paper and the research papers that accompanied it, they paint a picture that does disservice to the ways in which universities have been extraordinarily responsive to public policy in spite of a declining government commitment characterized by steady declines in per-student funding levels.

Council's documents suggest that universities should be instruments of government in order to fulfil public policy objectives. We have pointed out that universities fulfil their unique and critically important role in society precisely because universities are not instruments of government. Council's documents also postulate an artificial separation between teaching, research and community service, thus portraying the nature of academic work quite differently from the way in which it is conceptualized and practised by the faculty of Ontario's universities.

In the last part of council's discussion paper they put forward three possible funding models. It's important to note that in the entire discussion paper there was no analysis of the current funding model that is used and no attempt to point out too the disadvantages and advantages of that model. They went on to propose three possible future funding models: A, B and C.

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Model A calls for a modified version of the existing funding formula, a modified corridor system. To this degree, given that it is a modification of the current system, the essential advantages of the current corridor system would be retained. The critical advantage of this model lies in its predictability of outcomes. The model also provides reasonably equitable allocations across Ontario's universities. Our concern about model A revolves around the lack of precision in the discussion paper of the proposed modification to model A. OCUFA could only support modifications which demonstrate clearly an improved version of the current funding model without sacrificing the essential advantages of the corridor system.

The second model proposed, model B, is also a modification of the existing formula, but this one suggests an enrolment-sensitive system. The discussion paper fails to demonstrate precisely how model B would

improve the current corridor system, nor does it adequately address the critical disadvantages of such a model.

Universities require stable, predictable funding to sustain long-term planning. Enrolment-driven funding models make institutions vulnerable to short-term shifts in enrolments at both the undergraduate and graduate levels. Such short-term shifts would undermine rational planning, which in turn undermines quality. Moreover, of course, programs have variable costs. Many expensive programs can be relatively unpopular, as measured by enrolment alone.

The third model proposed by OCUA, the one that gave rise to the greatest concern, model C, is a means of funding universities through the purchase of services which, if chosen by the government of the day as the way to fund this province's universities, would fundamentally alter the very nature of the university itself and would be detrimental to the future of university education in this province.

We have appeared before you in the past, as recently as in your last set of hearings in 1994, and have argued in favour of accountability by Ontario universities to the broader community for all the funds that the universities receive. Those who are in favour of the purchase-of-service model, which is model C, would argue that this improves accountability. That is not necessarily the case. If the government begins purchasing on a short-term basis specific programs and courses, specific research and specific community services, universities will become more directly agents of the government. A purchase-of-service model would, in the guise of making universities accountable, undermine the independence of the professoriate and, most critically, undermine the independence of students and graduates.

I should say that we in no way accept the underlying assumption of model C that one can in fact separate research, teaching and community service in the way it is proposed in model C. The purchase-of-service model would create a two-tiered, perhaps even a three-tiered, university system in Ontario. At the top would be the research-intensive institutions. The rest would have their research capacity sacrificed to their teaching missions. As the province moves to destream the secondary school system, model C would achieve the opposite result in the post-secondary system.

We are greatly concerned about the council's funding model C, because there is a danger that this could be viewed as a solution to funding the universities in the absence of adequate funding; that is, the government, which most probably would be the largest single contractor of university services, would simply not contract for very many, thus thinking that the Ontario university system could get along with less money. We think that such an attempt would be doomed to failure as the university system would be so decimated as to be incapable of providing any services.

Why would the Ontario government contemplate such mammoth cuts to the province's university system? This concern that we have is of course closely connected with the second project currently under way that could jeopardize the future of universities in this province, and



that is the federal government's ill-considered and very badly-thought-out threat to eliminate the cash transfer portion of EPF contributions to post-secondary education.

According to the Ontario Minister of Education and Training, if the cash transfer portion of the post-secondary component of EPF is entirely phased out in 1996-97, the reduction in federal transfers to Ontario would be \$700 million. If the province passed the full reduction on to the universities, it would be withholding the equivalent of operating grants currently paid to York University, the University of Ottawa and the University of Toronto. If the province passed the full reduction on to the colleges, it would mean withdrawing almost all provincial operating grants from them.

It is unacceptable that the cost of funding our public universities should be shifted to students. Such a shift in funding resources would severely reduce accessibility. This has repercussions throughout the education system. According to the recently released Royal Commission on Learning's report, "Every increase in tuition fees is an incentive for kids from less affluent families to consider dropping out of high school." Such a funding shift, that is, a shift on to students' shoulders, would also further privatize what should be a publicly funded university system.

Both the federal government and the Ontario government have advocated the use of income-contingent loan repayment plans as a way of offsetting increases in tuition fees. We strongly disagree with this approach. An income-sensitive system of repayment would be relatively progressive only if two provisions were ensured: that is, that the absolute size of the debt were to be minimized and that there would be no accrual of interest during either the period of study or of repayment. Ensuring these provisions would entail both a substantial ongoing cost to government in interest subsidies and continued restraint on tuition fee levels. Clearly, neither of these provisions are a part of the federal government's model.

We've been told repeatedly that income-contingent loan repayment plans are a progressive direction to move into. They may in fact be very much the opposite of that. Since it takes people earning less longer to pay off the debt, they will end up paying off greater interest charges and consequently a greater total amount than the people who can pay their loans back sooner. The end result is that the very people who would accrue a greater personal return on their educational investment will end up having their education cost them less than those who find themselves in a less secure financial position.

Since post-secondary education plays a great role in decreasing the gap between those who have and those who have not, going in the direction of income-contingent loan repayment programs would greatly discourage those who come from less affluent backgrounds because they would end up paying their loans over a longer period and thus paying a greater amount.

Universities make large primary economic contributions to the economy by the provision of high-quality, accessible education and advanced training. Universities are also major employers, making a substantial economic contribution to the national, provincial and local econ-

omies. Recent studies have provided evidence that there are tremendous returns on university investment. Taking into account the investment one has both in terms of income from those who graduate as well as tax returns, the government gets its investment back in two forms and in impressive amounts.

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We told you at the outset of our remarks that we view both the Ontario government's funding review exercise and the federal government's social security review as potential threats to the future of Ontario's universities. You should note that we are not alone in this assessment. The degree of consensus displayed by the groups that appeared before OCUA during their hearings, groups both from within the university and from the larger community, was remarkable.

Opposition to model C, the services model, and support for the continued autonomy of universities to educate the broadest possible population and engage in research on the frontiers of knowledge mobilized university communities. The threat of government intervention prompted community leaders to evaluate the contributions of universities to their communities, and the results were striking. There was a groundswell of support for universities from leaders of business, labour, local government and local community groups.

It would seem from both of these projects that both the provincial and the federal governments are evading their responsibilities and trying to avoid making decisions that are politically unpalatable. Both the Minister of Education and Training in Ontario and the Minister of Human Resources Development in Ottawa would like you to believe that it is possible to educate most students with less resources and no reduction in quality. This cannot be done.

Regardless of what the federal government decides to do with respect to transfer payments, at both the federal and provincial levels our political leaders have three choices: They can choose to fund the university system properly, they can choose to restrict funding and restrict access to universities or they can choose to fund a lower quality of education for a larger number of students. We believe that neither of the latter two options is palatable to us, to the citizens of Ontario or to the citizens of Canada. It is up to governments to justify their decisions.

We urge the standing committee on finance and economic affairs to be vigilant with us to ensure the preservation of education and scholarship in our universities.

**Mr Malkowski:** Thank you for your presentation. I appreciate your information. You mention model C, which you called the Ralph Klein model. You might be interested to know that that's in The Common Sense Revolution, the philosophy of the Tory party, if you read that carefully. That's just for your information.

I just want to talk about the federal transfer payments. Can you explain how those will have an impact? Can you expand on that, on what the impact of the reduction of federal transfer payments would mean?

**Dr Carasco:** To some extent that depends on the

reaction of the provincial government to the federal reductions. If those cuts are passed on to us in the same amounts, it would have a very negative impact on the university system as a whole. Depending on how that cut is shared out, it will either lead to cutting of some programs or, in the worst possible scenario, closing a university or two. It all depends on what the provincial government's reaction to that is. If they take on the decreased amount and keep the funding levels the same as they are now, then the universities wouldn't feel the impact of it. But the provincial government may not be in a position to do that.

**Mr Malkowski:** Do you have any specific recommendations as to what we should do if the transfer payments are cut, how to deal with the economic realities to try to maintain a good standard of education and a good quality of education in the province's universities?

**Dr Carasco:** I can tell you what I hope you will not do, which is increase tuition immediately to make up for the shortfall in cash, which will lead immediately to restricting accessibility to post-secondary education. We would hope the provincial government would continue to regard funding of our universities as an investment in Ontario's future, as opposed to immediately shifting the burden of the public debt on to the students' shoulders and on to the taxpayers, because of course the students get the money from their parents or other sources, and so again it is the taxpayer taking on that debt.

**Mrs Karen Haslam (Perth):** I would like to just ask a question. We've had the Council of Ontario Universities come in to us and I find it interesting where they say that they are a long-standing supporter of ICRP as a much more progressive and equitable form of student aid for the post-secondary level. They say that a survey of 366 students taken at the University of Toronto found that 63% of decided students were in favour of that, 76% of students supported the implementation of ICRP.

That's almost in direct contradiction to what you're saying, and I wondered if you could explain, because you're saying, "Use of income-contingent loan repayment plans as a way of offsetting increases in tuition fees, we disagree with that." I see some of your reasons that you've put forward. What I'm interested in is the difference between you and the Council of Ontario Universities.

I'd like to slip a second question in here because I'm not going to get time later—

**The Chair:** There may not be time to answer it either. However, go right ahead.

**Mrs Haslam:** It says, "Even if the cash transfer portion of what the federal government labels EPF post-secondary transfers were to be eliminated, we would expect the province of Ontario to live up to its obligation to continue funding the universities of this province." So if there is less money coming from the federal government when everyone in here says cut back and worry about the debt, you are again doing the exact opposite in saying, "If the federal government cuts, we expect you to pick up the slack." I'm wondering how we can do that.

**Dr Carasco:** I'll try, in light of the Chair's comments,

to be very brief. I don't know how ICLRP was presented to the group of students at U of T. I don't know if they were told what the threshold payment level was going to be, what the interest charges were going to be, what the overall debt would be.

If you simply say to students, "Well, this plan means that those who have jobs will pay according to how much they earn," that sounds in theory quite fair. It's only when you begin to look at the actual levels of interest and how long it takes to pay and how much you have to borrow in the first place overall—the assumption is that tuition rises, so the amount you're going to borrow in the very first place is quite high, much higher than it would be if you borrowed today with current tuition levels.

Unless the students have all of the information in terms of what it would cost them, I'm not sure I would take that study too seriously. I don't know how COU presented it. All we are saying is, theoretically it works. If you don't have all this other information it sounds good, but we've pointed out in our brief exactly what we'd like to know before we could support something like that.

As to the second remark, it's a question of how you regard education. If you see it as we see it, as an investment in the people of this province, in which the province gets four or five times the amount it invests in every dollar in education, then we don't see any contradiction between saying continue to invest in the people of the province.

**Mrs Haslam:** Versus where else you get it from.

**Mr Kwinter:** I listened with interest to your presentation. One of things that I think everybody will agree with is that the overriding theme of everybody who has come before this committee has been that we have to do something about the debt and the deficit. I don't think there's anybody who has come forward so far and said, "Forget about the deficit, forget about the debt, let 'er go."

What happens—and I remember the pre-budget hearings in 1990 when the government was defending its deficit of close to \$10 billion at that time and it was preaching Keynesian economics—

**The Chair:** That would have been 1991, Mr Kwinter.

**Mr Kwinter:** It was 1991, sorry. They were preaching that you spend in the bad times and you pay it back in the good times.

We are now in a situation that is being perceived as entering the good times. The reality of the situation, if you take a look at the Treasurer's presentation to us, is that the interest rate on the debt is growing faster than the gross domestic product of the province. So if we do nothing, if we maintain the status quo exactly where it is, we get deeper and deeper into debt because the interest rate every year gets greater than the increase in the economy, which means that what we have to do is what everybody is preaching.

We just had the automotive parts association say that we have to do more with less, for less, and everybody has got to deal with that message. Universities are in exactly the same position. I used to be the vice-president of a post-secondary school institution and I had a lot of



dealings with OCUFA, and I am saying to you that what has to happen is you can't use the old parameters of saying: "We've got to have more money. We've got to have at least the same amount of money because if we don't all of these things are going to happen." You have to go back and look at how you're doing things and you've got to do it better and cheaper. It isn't a matter of choice; you have no choice.

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I am saying to you that it doesn't matter what government gets elected, they are going to be confronted with that exact same problem: How are we going to get the deficit under control? The only way is that we've got to be able to reduce our annual deficit, and the only way we can do that is by constraint. That doesn't necessarily mean that you have to have a serious meltdown in the institution; it means there has to be a commitment on everybody who is involved to take a look at it and say: "Okay, these are the facts. This is what we have to do and we all have to be part of it. How are we going to do it?" I'd like to get your response to that.

**Dr Carasco:** I would start out by pointing out that in fact universities have been doing more with less for a while now, pretty much all the time that I've been teaching. The number of students has increased; the amount of resources has decreased. The ratio of faculty to student has increased and each faculty member is teaching many more students.

All of this inevitably is going to impact on quality and that's something you have to keep in mind when we're talking about post-secondary education. If it's just a question of continuing to turn out graduates and we don't care about the quality of education, then we can keep going at the rate we are going. But we are beginning right now to see the negative impact of the last 10 years or so of this increasing doing more with less. So it isn't as if universities have not been doing their share in recent years.

In terms of the debt, of course it's a serious problem, and nobody in the post-secondary sector says that it isn't. But we're asking you to not look at university education, post-secondary education, in isolation from the rest of the economy. If it is important to our economy to have a well-educated, well-trained workforce, then universities have to continue to be able to do the work they have been doing.

They've got to respond to the very rapid changes in our society, which means that some of the things we did in the past are no longer as relevant and we've got to offer new programs and do things in different ways. Technology has brought on its own share of expenses and new ways of doing things in universities. If the university is going to continue to play the important role that it has always played in the economy, then we cannot afford to underfund universities.

**The Chair:** Thank you.

**Mr Kwinter:** Do I have another minute?

**The Chair:** Well, you've actually used more than your four minutes, and everyone has so far, so I'd like to proceed, if I may.

**Mr Carr:** Thank you very much for your presentation. I'd like to follow up on the same line as Monte as well in this regard.

The Minister of Finance sat in that seat on Monday—the very seat you're sitting in now as a matter of fact—and said that when the social contract ends there is no new money going to be coming into the system, notwithstanding what happens with the federal government in cutting transfers and with you having said you want no tuition increases. When the social contract ends—and he was very honest and has said this before—the money that was taken out during the social contract is not coming back into the system.

Assuming the federal government doesn't do anything, and you've talked about what happens, with no tuition increases—very clearly your membership has been rolled back or frozen, and now they're going to be asked—unless there's some other place to find money with no tuition increases, what do you see happening when the social contract ends and what is your membership feeling, knowing the realities of what I just outlined to you, what the potential is when the social contract ends? Can you tell us what's happening and what is your membership feeling?

**Dr Carasco:** Given the nature of academics, I'm not sure that I can tell you all of the different potential responses to that. Let me start out by saying that we have in fact lost considerable numbers and what we're seeing more and more happening in universities is that work is being farmed out to what we refer to as sessionals, people who just come in to teach individual courses, as opposed to full-time academics, which again has an impact on quality of education, not only because they may not be as well trained as the full-time academics—which is sometimes the case, but not always—but also because they're not there, involved in the university on an ongoing basis, there for the students, there to do research etc. So we already have less numbers to deal with the larger numbers of students.

In terms of there not being more money in the system, I think everybody understands that at least for the foreseeable future, that's certainly the direction the province has got to go in. What we're hoping is that we're not going to see less money, which would mean either not being able to offer certain programs or offering a poor-quality education. What we're hoping is that the government will not assume that you can continue to provide good-quality education with less money. If we're going to come right out and say, "Let's put a lid on the number of students so we can continue to offer good-quality education," that would be more honest in terms of dealing with the population of Ontario. Tell them that you cannot continue to offer good-quality education to greater numbers of students. But that's not something any government has shown its willingness to do.

ONTARIO GOOD ROADS ASSOCIATION

**The Chair:** The next presentation this afternoon is by the Ontario Good Roads Association. I see there are a number of people coming forward, so I invite you all to make yourselves comfortable.

**Mr Len Rach:** Good afternoon. We're here today

representing the Ontario Good Roads Association. My name is Len Rach, director of planning and engineering from Metropolitan Toronto and president of OGRA. With me this afternoon are Gerry Lalonde, councillor for the township of Cumberland and the first vice-president; Morley Daiter, city administrator, North Bay, and second vice-president; Sheila Richardson, OGRA's executive director; and last but not least, Marian Millman, reeve from the township of Yarmouth and an OGRA director.

For those of you who are unfamiliar with OGRA, let me say that it is a municipal organization representing the roads and transportation concerns of over 750 municipalities across Ontario. Our members range from the large urban regions to the small rural municipalities. Our board is comprised of eight elected representatives and seven senior municipal staff, with due recognition to geographical representation across the province.

We are here this afternoon to offer some comments on the upcoming provincial budget. We know that you will hear many eloquent and valid pleas for funding that must be dealt with from static, if not declining, financial resources. We ask only that you keep in mind that a safe and efficient transportation system allows people and goods to move, school buses and emergency vehicles to travel, and transit systems to operate on our road system. In turn, this surface transportation system is the lifeline to our economic viability as a province.

The municipal road system is comprised of almost 137,000 kilometres. In the fiscal year 1992-93, the road system expanded by 481 kilometres, which is below-average growth, because in the previous years we've experienced an average growth of about 578 kilometres per year.

Most of the system growth is taking place in and around large urban areas such as the greater Toronto area due to new residential-industrial subdivision development. Yet, while the road system expands, it continues to be underfunded and the MTO share of the provincial budget for the delivery of transportation services continues consistently to shrink. For example, from the 1955 to 1965 period, transportation comprised between 26% and 33% of the total provincial budget. In 1993, it represented only 4.5% of the provincial budget.

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In 1993, approximately \$730 million was transferred to municipalities by the provincial government. An additional \$55 million was provided to municipalities in 1993 under the transportation capital program. This program, which concluded at the end of 1993, was a \$2-billion, four-year initiative of the government to improve Ontario's transportation system. Municipal roads received a budget total of \$200 million over the four-year program, and many of the projects started with the transportation capital funds will require funding to continue through the 1995 period to be completed. Therefore, it is the municipal roads program that will be required to absorb the costs to complete these major projects through its regular budget.

I wish to comment for a moment on the Canada-Ontario infrastructure works program. OGRA is very pleased that the provincial government participated in this

program. The contribution of the three partners of approximately \$722 million each allowed much-needed infrastructure rehabilitation projects to proceed, in addition to creating almost 25,000 jobs. We were gratified to read in recent reports that roads, bridges, water and sewer projects in Ontario received just over 50% of the allocated funds. We also appreciate the support of the provincial government on the need for municipal flexibility to make amendments to approved programs without the need for formal approval. Municipalities are certainly qualified to reallocate funds among approved projects where there is minor overspending or underspending.

We understand that the Treasurer has announced that 1995-96 transfer payments to municipalities will be maintained at existing levels. We are relieved that these transfer payments will not be reduced, but at the same time we remain disappointed that our expanding transportation system continues to be underfunded. What remains, of course, is to hear from the Minister of Transportation concerning road allocations. Municipalities need that information in January or February each year, and we are requesting that the ministry announcement be made immediately so that municipalities can effectively implement the planned construction before the end of the year.

It seems appropriate at this point to restate an issue of critical importance to municipalities; that is, the need for more predictability not only in funding levels but also in programs. Municipalities have clearly and consistently called for an end to downloading. The Treasurer has eloquently called on the federal government not to cut into transfers to the provinces, "cuts that would have indirect impact on provincial funding for programs and services." We ask that the same consideration be extended to your municipal partners.

Municipalities recognize the need to govern efficiently and manage resources prudently, and we have taken many steps to do so. What we need now is cooperation and agreement from the government of Ontario. Certainty in transfer payments could be significantly increased if a portion of fuel tax revenues was dedicated to road needs. We recognize that dedicated taxes reduce the availability of funds for those sectors that do not have an obvious source of revenue, but we believe that road needs are the legitimate recipient of these funds. In fact, the government has moved towards dedicated funding for provincial roads with the introduction of tolls on Highway 407.

I wish to discuss briefly the link between transportation investment and economic development.

Investment in transportation infrastructure can provide a critical link in achieving high rates of economic growth fundamental to the economic wellbeing of this province and Canada. For example, improved infrastructure can lower transportation costs, which in turn positively affects the competitiveness of Canadian goods. Chosen and planned carefully, transportation investments can generate time savings and reductions in vehicle operating expenses that result in productivity and safety gains beyond the costs of the initial investment. Studies have shown that retail businesses as well as other sectors of industry and commerce incorporate transportation improvements into their distribution systems and planning. Also, the interna-



tional community views the combination of a highly skilled labour force and a highly efficient transportation system as an attractive climate for investment.

The current state of our municipal bridges is a prime example of our deteriorating infrastructure and our struggle to provide a safe and efficient transportation system. In 1992, the last time we did a detailed five-year inventory, there were 9,197 inventoried municipal structures in Ontario. Of this, 1,854 were identified as below desired load capacity. We would expect that these numbers may very well increase when an updated appraisal is completed.

Overall, the funds that have been made available to rehabilitate and replace these structures are insufficient to stem the further deterioration of our bridge system. In many cases, decisions are being made to defer preventive maintenance until the bridge requires total replacement. Without any regular maintenance program in force, the average life of a structure is considered to be about 50 years. With a reasonable maintenance program, an additional 30 years of life can be added to its overall life cycle before the bridge structure requires major rebuilding.

To give you a few examples, currently Victoria county has 71 county bridges on local roads that are, on average, 46½ years old, and these require some \$10 million to rehabilitate or replace, for which no funds were provided in 1994. Elgin county has 60 bridges, with an immediate need of \$19 million for rehabilitation and replacement. In Metropolitan Toronto we have 222 bridges and 68 culverts, which were largely built between 1955 and 1969, and they have an estimated replacement value of approximately \$1.8 billion. Almost \$30 million annually is being spent on these structures for rehabilitation. However, we've completed a life-cycle analysis, and to avoid structurally unsafe conditions in the future, Metropolitan Toronto requires an additional \$7 million annually into its capital program to keep the structures in good working order.

It's clear from these examples that greater contributions are required from the province of Ontario to maintain the existing condition of municipal road structures. The rehabilitation of bridges not only generates many jobs very quickly but will also save considerable money, since maintenance is more cost-effective than replacement.

In a matter related to our funding concerns, OGRA has worked with MTO over the past year to develop streamlined administrative procedures as part of a new funding formula. We remain convinced that a new formula is required, one that is more flexible, less complex and which recognizes efficiency and productivity in municipal road management. We will continue to work with MTO and the other stakeholders to accomplish these changes.

I wish to conclude my remarks by stating that OGRA welcomes the opportunity to participate in your deliberations. We know your task is not an easy one, and we hope we have provided some food for thought. We have tried to highlight the major issues facing Ontario's municipal road systems. We have not come with simply a plea for more funds but with a request for the tools to

assist in the ongoing economic recovery of this great province. We ask for your assistance, and we hope that our comments will be useful in your deliberations.

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**Mr Phillips:** Should the province be considering more toll roads? Is that something the Good Roads group feels is a good approach?

**Mr Rach:** We're certainly supportive of the province's initiative for requiring the user to pay for the use of Highway 407. We feel that's a good direction to go in.

In terms of municipal application, I really don't see any large applications in the municipal sector for toll roads unless you've got an extensive freeway system built into your area.

**Mr Phillips:** In terms of helping us with a year-to-year comparison of funding from the province to your Good Roads Association, can you give us a comparison of the funding that's been coming from the province over, let's say, the last two or three years, just so we get some idea of what we're dealing with here in the budget?

**Mr Rach:** I believe overall the transfer payments from the province to the municipalities have decreased somewhat. I don't have the exact numbers with me. This is in total. I know the transfers for general construction last year were flat-lined from the year before. There were fewer dollars available for special initiatives, such as the major bridges in the province, for municipalities, or the larger major projects that municipalities undertake.

**Mr Phillips:** Does any of your funding at all come from the transportation capital corporation? Is there any funding from there, or is this all grants from the Ministry of Transportation?

**Mr Rach:** I believe it's all grants from the Ministry of Transportation.

**Mr Phillips:** So you don't participate in the transportation corporation at all.

**Mrs Elinor Caplan (Oriole):** I want to thank you for an excellent presentation. One of the concerns I have is that I don't think there should be any unrealistic expectations of lots more money being available. If anything, I think people at the municipal, provincial and federal level all recognize that this is a time of restraint and that that period of restraint is going to continue for a long time, just given the deficit and debt situations. We're all aware of that. So I would ask if your association has looked at any opportunities for a reallocation of the dollars that are not being used well, in your evaluation of where the province is spending its money, particularly in your own area. It's always easy to look at somebody else's budget; I'm talking about the area of transportation infrastructure. Are there things they're doing which are not a priority, and they should be doing bridges and those kinds of things first?

**Mr Rach:** From my perspective, I feel that the transfer of funds between the ministry and the municipality should not have any conditions placed on it. For example, some portion of the funding is what we call earmarked funding to specific initiatives, and I feel very strongly that the municipalities are in a better position to

judge where those funds should be allocated, whether it should be for a bridge rehabilitation or a road widening. I think it's best left in their view.

**Mr David Johnson:** Thank you, Len. It's good to see you again, after a few years' absence from Metro, and the people of Good Roads. I had a very short career with the Good Roads Association back—when was it?—in 1992, I guess, or 1993; one of those years back in there.

**Ms Sheila Richardson:** Just before you got elected.

**Mr David Johnson:** Just before I got elected here. But I know the concern first hand. I was just looking at the fact that you indicated that there was a transfer from the province to the municipalities of \$730 million in 1993, and looking at the revenues for the gasoline tax at about \$1.9 billion for that year, and for vehicle driver registration fees of about \$725 million, that adds up to about \$2.6 billion that came into the province of Ontario through those fees. So if you say that you don't feel you're getting your fair share of the—is that the kind of thing you're referring to?

**Mr Rach:** Partly. I think our association has come before this committee, as well as other associations in the past, and asked for a portion of the taxes from the gas tax to be earmarked for transportation. We feel it's more consistent and perhaps much more acceptable to the overall public in recognizing that the taxation from the gas will be going back and improving the transportation system of our province.

**Mr David Johnson:** I recall in my former capacity as mayor that some of the grants were for maintenance, some of the grants were for capital. I think some of the grants were earmarked—they had to be—for a certain project. Does that still happen?

**Mr Rach:** That's still ongoing. Nothing's changed.

**Mr David Johnson:** I never could understand why that was so. I don't know if it's politicking or whatever it is, but I agree with you that it doesn't make any sense.

In the bridges in Metropolitan Toronto, you've mentioned a number of bridges. Did you include the Gardiner Expressway among those bridges?

**Mr Rach:** In that inventory, the Gardiner was included as one structure, one bridge.

**Mr David Johnson:** That must be about the most expensive bridge in the province of Ontario, I guess, is it?

**Mr Rach:** I hesitate to tell you what it costs us each year to rehabilitate. We have over \$10 million in this year's capital works program for replacing the deck in a portion of the Gardiner.

**Mr David Johnson:** I know in Metropolitan Toronto there was a program of rehabilitation, resurfacing every few years on roads which would prolong the life. Just as you say you can prolong the life of a bridge, you can prolong the life of a road by resurfacing—what?—every seven years, I think it was at one point, which would add to the life of a road. Is that kind of technology in place or is it able to be in place with the funding across the province of Ontario?

**Mr Rach:** The technology in terms of rehabilitation

and life-cycle analyses is in place with all the municipal organizations and they're fairly well recognized right across the province. The unfortunate part is that Metropolitan Toronto is like any other municipality, and we all share that in the same boat where we don't have enough funding to undertake the proper rehabilitation of our existing infrastructure. You can take Metro Toronto's situation. We have a backlog of rehabilitation in roads and bridges of over \$50 million right now. Over \$40 million is required for road reconstruction alone, and basically we don't have the money in our capital program.

**Mr David Johnson:** What does that say about the safety of bridges?

**The Chair:** Thank you, Mr Johnson. We have to proceed.

**Mr Malkowski:** Thank you to the presenters. It was a very good, comprehensive presentation by the Ontario Good Roads Association. I want to congratulate you on coming forward today.

Talking a little bit about our provincial commitment to the continuance and maintenance of a good system of roads in this province, albeit through our infrastructure program, and we're happy to participate in that, I believe we've been one of the leaders, in terms of jurisdictions, working with municipalities and now with the federal government to ensure that we have a good road system. Coming from the borough of East York, I know that they have also received some funds and have done well under that.

**1530**

Moving along, I want to talk a little bit about specifically what you said, that you were relieved to hear that the Minister of Finance has announced good news, that he won't reduce, but at the same time you're saying you've a little bit disappointed that you haven't heard yet from the Minister of Transportation in terms of a commitment. I am happy to tell you that in point of fact, part of the process here today and the feedback today on budget consultation is to hear from you and pass on information. My understanding is that the Minister of Transportation will be making a good news announcement, probably at the end of February, and that would probably go a long way to alleviating some of your concerns. We are more than happy to pass on what we've heard today to the Minister of Transportation, but I'm sure the good news announcements are coming.

In terms of the budget itself, I wanted to say that in terms of your comments to the federal Liberal government, it is presently set with its own federal budget. What do you foresee as possible impacts to you if they are to cut, even though we as a province are committed to going ahead with the projects and the commitments that we have? I'm wondering, in your comments, how much damage or impact would happen if we were to be cut back by the federal Liberal government. Can you talk a little bit about that?

**Mr Rach:** That's certainly a loaded question. If the federal government cuts back on the transfer payments to the provinces, I am relatively certain that the municipal-



ities will probably be next on the list. In the end, it's the taxpayers who will be asked to bear the additional burden. It comes right down to the grass roots of the individual taxpayer in each and every local community.

**Mr Malkowski:** We join with you in your struggle and your concerns. We want to ensure that we continue to receive good transfer payments and a level of funding for the good programs that we work together on. Thank you for your comments.

**Mr Sutherland:** I guess this issue may be more appropriately addressed to AMO. Every year I get comments from my local municipal politicians who are concerned about the transfer announcement about the road subsidies because our municipalities operate their financial year on the calendar year, and of course the government and just about every other transfer payment agency operates on a fiscal year of April 1 to March 31. I guess my question is, has your organization given any consideration to moving the fiscal year to April 1 to March 31 to coincide and make it easier for everybody, from our perspective anyway?

**Mr Rach:** Can I deflect that question for a response to my municipal councillors?

**Mr David Johnson:** It doesn't help you in roadbuilding anyway.

**Mr Sutherland:** If you don't want to answer it, that's fine.

**Mr Rach:** Really it comes down to, the key issue is if we can both work together and develop a system whereby the municipalities can be assured of the transfer payments in January and February so that we can effectively plan a reasonable construction program. You have to appreciate that the construction program in this province isn't very long.

**Mr Sutherland:** Yes, that's right.

**Mr Rach:** I think we have two seasons now: construction and winter.

#### ONTARIO ASSOCIATION OF NON-PROFIT HOMES AND SERVICES FOR SENIORS

**The Chair:** The next presentation this afternoon is by the Ontario Association of Non-Profit Homes and Services for Seniors. Please identify yourselves for the purposes of Hansard and the committee members.

**Mr Kevin Mercer:** I am Kevin Mercer, president of OANHSS, and with me today is Michael Klejman, executive director. It is a pleasure to appear before you again this year to speak from the perspective of non-profit providers of services to the rapidly growing elderly population of Ontario.

I point out to you that you have in your package copies of my speaking notes and Michael Klejman's speaking notes, and you also have a copy of our complete submission, so if you wish to follow along, you can.

The Ontario Association of Non-Profit Homes and Services for Seniors celebrated in 1994 its 75th anniversary of representing non-profit organizations serving over 10% of Ontario's elderly population. Our members include charitable corporations and municipalities which provide facility care, housing services and community outreach for seniors.

Nearly 500 members who are in the long-term care field feel strongly that fiscal decisions taken by governments must take into account the short- and long-term effects of their efforts to control the deficit or to stimulate the economy. Much has been said publicly about the projected growth of the elderly population in Ontario in the next 30 years.

The projected increase to over 20% by 2020 has frightened many economists and politicians. That demographic fact alone has triggered much in terms of legislative and fiscal initiatives in Ontario and in other jurisdictions. Much of the restructuring and redirecting of services to seniors is premised on the assumption that the current ways of providing service delivery to seniors when they comprise over 20% of the population would bankrupt the province. It is this belief that has brought about the removal of both the facility-based care and more recently home care from the Ontario health insurance plan. It is also behind the philosophical shift away from the principle of universality of supports, both fiscal and health, for the elderly. We believe that these two premises, and policies based on them, will result in a disastrous situation in the next 20 years.

Not much information exists today about the impact of changing lifestyles and buildup of retirement income among the baby-boomer generation and how it will affect the health and financial status of the elderly in 20 years and the demand for publicly funded health and long-term care.

In the meantime, we are witnessing the gradual dismantling of parts of the long-term care system in Ontario. I should clarify that we agree with the need to rationalize, eliminate duplication and simplify access for those needing long-term care. But we are appalled to see the homes for the aged, that have been the flagship and models for development of care, forced in the past five years to continuing staff cuts and elimination of the critical quality-of-life programs while being forced to sign contractual agreements committing them to meet provincial care standards.

Community organizations that have over decades developed comprehensive programs that support independence of seniors, but are also able to provide intensive care if required, are now facing dismemberment so the multiservice agencies can be created. Overriding all this is the impact of policies and regulations on the ability of non-profit service providers, whose mission is to serve their fellow citizens, not to generate profit. Our members cannot function while caught in the vicelike squeeze between continually reduced or frozen funding while demands for meeting standards, workplace safety, pay equity, arbitration rulings, fixed operating costs and levels of care needed by consumers of service are all increasing.

I would like to set out for you some key principles we want this committee, the Legislature and the government to seriously consider while the budget for the coming year is developed, regardless of which party's responsibility this turns out to be.

We would like to recommend, first of all, as a principle a moratorium on any measures that contribute to increased operating costs without directly improving the

quality of services to be imposed. This includes suspension of legislation that has not yet been proclaimed and temporarily disabling of elements of existing legislation.

Secondly, a Premier's council should be set up to review both existing and planned legislation. This council should include representation from provider, employer and consumer representatives and be structured according to the main sectors of the broader public sector. This measure may enable us to move out of the social contract era in an orderly manner.

Thirdly, a sectoral review structure should be set up immediately for the Minister of Health at the deputy minister level to review current policy provisions that have direct impact on cost while no direct quality-of-service benefits. This review would have a specific target of identifying what policies can be changed or eliminated and be translated into direct financial benefit to transfer payment agencies without increasing the level of provincial funding. For example, long-term-care facilities are not permitted to accrue funds to cover labour-related costs. Specifically, it takes up to three years to reach a contractual arrangement, but the Ministry of Health permits accrual for only 30 days.

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Fourthly, the government must open up the dialogue on the issue of devolution and creation of special-purpose bodies. There are many cases of partnership between the province, as a regulator and partial funder, and earlier efforts to rationalize these arrangements that have either failed or seem never-ending. They also lacked openness and inclusiveness.

Finally, a commission be set up to study and recommend a direction with respect to the universality of public services. Specific focus should be on health and address the matter of user fees to ensure fairness, affordability and access to services.

I would now like to ask Michael Klejman, executive director of our association, to highlight the content of our specific submission, which you have.

**Mr Michael Klejman:** I would like to review with you about four of the key points in our submission, which are also outlined in the document before you.

The first area I would like to address is continuum of care. Much of the provision of services to seniors is based on the concept of continuum of care. This philosophy aims to provide a common environment, continuance of staff and systems to minimize confusion and disorientation. This concept applies to both community and facility programs.

The policy direction and legislative changes in Bills 101 and 173 are creating a system that will be fragmented, with tremendous division between facility programs and community supports. Instead of flexibility and creativity, we are facing a rigid system marked by rules and procedures with little room for innovation.

The second area, in-home care; is it cheaper? There is universal support for a significant expansion of in-home services. An argument has been advanced in the past that the in-home care offered financial as well other benefits. The recently released draft manual for the delivery of in-

home services suggests that there will be two levels of in-home services with per diems of \$115 and \$216 for basic and enhanced services, respectively. By comparison, the Ministry of Health has set the funding average per diem for facilities at \$79.61, of which the consumer pays on the average \$33. I would just note that most recently, the ministry's preliminary figures for the second half of 1993 show that homes for the aged have been spending on average almost \$84 per day per resident. You can see the difference between the subsidized or recognized cost and the actual expenditures incurred by these facilities.

Third area, service priorities, service measures and an outcome-driven approach to funding: A year ago, we brought to the committee's attention the varying funding levels. It may be worth repeating that it costs about \$300 a day for a young offender, adult penal institutions' per diems are between \$118 and \$131, while schedule 1 facilities for people with developmental disabilities have per diems of \$241.

We are asking, what are the service priorities and how are they developed and monitored? What service outcome measures are used to determine whether these funds are well used? Has an effort been made to define expected outcomes which then could drive the various systems and directly affect funding provisions and decisions? We believe that such an approach would bring a more equitable process of allocating public funds.

Fourth area, service thresholds: We advance, as a fundamental principle to the success of long-term-care reform, the concept of service thresholds. These thresholds, based on a set of criteria that would consider consumer preference, cost-benefit, quality of life, health and safety and service management, would indicate the most appropriate service option. The setting of these thresholds would permit measurements of program affordability and decisions as to which program or service specifically is most appropriate for each individual in need of assistance.

Finally, support for non-profit services: The ratio between for-profit and not-for-profit facilities continues to tilt in favour of the for-profit sector in Ontario. This is in spite of the avowed preference by successive Ontario governments to prefer the non-profit system for delivery of services to vulnerable populations.

The loss of more than 4,300 beds in the past few years and the total flexibility the legislation gives the province to remove home-for-the-aged beds from the system, which clearly contrasts with the full protection given to nursing home beds from similar actions, are but two examples of the reality. The most glaring is the fact that all nursing home beds are guaranteed funding at a staffing level of 2.25 hours per resident-day regardless of the actual care requirements as determined by the annual resident classification activity that is carried out by the province. Meanwhile, non-red-circled homes for the aged are funded strictly on the basis of the classification outcomes.

I'd like to draw your attention to page 12 of our full submission, which contains recommendations in addition to those stated by Kevin in the opening remarks. These recommendations, which I'd like to read to you now,



pertain specifically to health services and long-term care.

First, we recommend that the 1995-96 budget priorities balance the needs of the client, consumer choice, overall service outcomes, the degree to which particular service packages meet all the client needs, and comparative affordability.

Second, we recommend that the province develop information with respect to service need projections and an accompanying outcomes-based cost analysis of its current initiatives. This analysis should be conducted prior to any further changes in the system.

Third, we recommend that the province review the policy which prevents consideration of assets when determining the ability to pay for services, specifically in long-term-care facilities.

Fourth, we recommend the establishment of a realistic but flexible threshold for the delivery of community services based on fiscal, quality-of-life—that includes consumer choice, and health and safety considerations—and service management factors. The threshold would define the point at which a senior's needs would be better served by a different service provider. We further suggest that the absence of such a service delivery threshold will result in increased risk to consumers and reduced cost-effectiveness to the system.

Fifth, we recommend that the province take immediate action to stop any further erosion of the not-for-profit sector.

Finally, we recommend that the distinctions among the various community services covered by Bill 173 be reviewed so that the historical capacity for flexibility, innovation in program delivery and design, and service efficiency not be lost.

**Mr Carr:** Thank you very much for your presentation. It's nice to see you again. I've sat on this committee for a few years now and it feels like old home week when people come through again. I must be getting old: I'm recognizing people as they come through for the second and third time. But thank you, it was a tremendous presentation.

I want to turn to page 10 of your submission, where you talk about the commitment to volunteers. You say, "Despite verbal commitments to the importance of the voluntary sector, the role of volunteers in the provision of long-term-care services has been virtually ignored by the province during the reform." You go on to talk about how "Bill 101 and Bill 173 fail to recognize the essential role of governance and service volunteers in services offered by municipal and charitable homes for the aged...."

As you know, during this debate—and I actually read your submission during the Bill 173 debate—I watched in the House when the government and the minister stood up every day and said: "No, that isn't the case. That isn't what is happening." How come we can have this difference of opinion between the service providers like yourself, who are saying this is what will happen, and the government? You heard it. I think even the Premier stood up in some of the discussions and said, "No, that is not what is going to happen with this bill." Would you like

to discuss why? How can the public on the one hand listen to the service providers like yourself saying volunteers are going to die, including the Red Cross and the VON, and how can members of the government stand up and say, "No, that's not the case"? What's happening here?

**Mr Mercer:** It's our sense that there's a culture within the community sector, within the provision of community services and certainly the members we represent, that there's been a cadre of voluntary support that's been cultivated over the years. Clearly, it's our evaluation and the evaluation of the people we worked with in terms of preparing our brief for Bill 173 that that element was ignored by the government in terms of the drafting of the legislation.

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It's our sense that the structures envisioned by the government will not take into consideration the culture at a community level that has cultivated that sense of voluntary support, that the creation of agencies as envisioned in the legislation nullifies the kind of fostering and development that has been developed by charitable organizations and voluntary organizations in the community. Clearly, they came forward and expressed that as well. There are other jurisdictions where the experience has already been noted. In Quebec, for example, a task force report was developed, evaluating structures that were very much similar to the MSA structure, and noted the negative effect on volunteerism. So it's our belief that it hasn't been given enough priority in the evaluation of Bill 173 and its impact on communities.

**Mr Klejman:** If I may pick up on another element of it—and we don't doubt the commitment and belief of anyone in the House who stands up and says that the belief in the importance of volunteers is there—where we see the difficulty is in our interpretation of what legislation, regulations and then emanating policies do to boards of directors, how they impose straitjackets on them in terms of their ability to manage programs and feel fully accountable to them. They don't feel that their role is to simply march to the orders issued from bureaucrats at Queen's Park and administer programs that have been conceived in an ivory tower. There is a sense of their knowledge of what the community needs, how the community needs those services, and they are trying to respond to those needs in their ways, in their understanding, and that is where the new legislation makes it more and more difficult.

**Mr Carr:** On page 7, the word that struck me was very powerful. You said, to date, long-term-care reform has had a "devastating" impact on the residents and their families. Could you expand on what you mean by "devastating," and what's happening?

**Mr Klejman:** Sometimes use of certain words triggers questions or a reaction. I'm not sure if we intended to ring great bells of alarm, but we have noted that there has been a confusion, particularly among facility residents in the last two years. The way in which their fees are determined has changed at least twice. They were notified once about how their fees would be determined, then that was changed.

They are now being told that, for many of them after a lifetime of never declaring any income tax, they have to file an annual return before their income can be determined to establish their rate of contribution. Why? Bureaucracy forces 75-, 85-, 95-year-old seniors to file annual income tax just for the purpose of using that as a mechanism for determining their fee. We don't understand, because it's not necessary. There are other ways of doing it.

Families are confused because many of the families of these residents have seen loss of service. Many of the homes for the aged have been laying off staff for the last four and five years. It may not have been in great numbers, but it's been a gradual, steady reduction of services, as they have been frozen, their funding has been capped and red-circled now for five years.

**Mr Carr:** Thank you very much. Good luck.

**Mr Malkowski:** Thank you for your presentation. In terms of your comments regarding long-term care, there seem to be some inconsistencies with what I've heard specifically from constituents in York East, and my constituency has a high population of seniors. We also heard from the seniors' alliance during the committee hearings on Bill 173; they were very clearly in support of the MSA model. Also, the report they had done by Price Waterhouse talked about cost-effectiveness in terms of being able to save millions of dollars and reduce the duplication of services.

I am surprised that you didn't talk about the potential things that could be done in terms of how to save money and still at the same time minimize the impact and maintain the level of services. So I would disagree with the comments when you were talking about what the impact would be to service providers.

I would like to ask you, and actually it's perhaps a bit of a challenge, if you could give some specific recommendations for us to consider in terms of being able to cost-save and yet be creative, because the government has spent over \$600 million to look at community-based long-term care. As well, with Jobs Ontario Homes projects, there has been an increase in non-profit housing projects that seniors have received. Perhaps you'd like to comment on those: the government initiatives focusing on community initiatives, and Jobs Ontario Homes.

**Mr Mercer:** I would simply point out that within our brief there are a number of recommendations that we believe will improve the efficiency of delivery of services. In particular, we'd emphasize that our association and our members have always supported a continuum-of-care philosophy which sees community support being provided, through to housing, through to homes-for-the-aged services. We believe there are significant economies to be achieved in applying that kind of model within our communities.

Unfortunately, we see that with the legislation and the policies that emanate from Bill 101 and also from Bill 173 there is a fragmentation of the long-term-care sector. Clearly there's a recognition of a community sector versus an institutional sector, and homes for the aged have been lumped into the institutional sector. We've always considered ourselves to be part of the community

in that regard and part of a continuum of care. We believe that's where the efficiencies can be achieved and that's where consumer choice is also preserved.

In terms of the Price Waterhouse study, it's my recollection that the study was withdrawn, that it was seen as being deficient in its analysis. Certainly that was our evaluation, that it was markedly deficient.

**Mr Klejman:** If I may add a comment with respect to the Jobs Ontario, Homes Now effort, it is my understanding that the majority of allocations did not go towards seniors. We agree that there are other vulnerable populations that require such support, but there was a distinct policy within the Ministry of Housing to prioritize seniors and seniors' need for housing at the bottom of the ladder.

**Mr Sutherland:** The long-term-care debate about the volunteers: I looked at my own community and tried to find a similar model, and I would say that if you look at children's aid societies, they have lots of volunteers; the one in mine has I think over 250 volunteers. So if you're looking at a community board covering a larger area than an individual institution, those people are still volunteering.

My one other comment—food for thought—is that we've just had a report from the Royal Commission on Learning which talks about ensuring consistency around the province in terms of standards etc. I wonder if there isn't a parallel for delivery of long-term-care services with that.

**Mr Klejman:** The consistency of standards is critical in any sector where public funds are expended, and we know that funds are limited. We support that concept. The development of standards, though, ought to involve those who use the services, those who provide services and those who pay for services. It was not our experience, in the development of the facility programs manual, that we were there at the time the manual was developed. We have no quarrel with the concept; we want to be a part of the process.

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**Mrs Caplan:** Nice to see you again. I'm very aware, as you know, of the important contribution that your organization and the facilities you represent play in providing important care as part of long-term care for the people of the province.

I'm concerned and distressed to hear that you weren't a part of consultation for the development of standards. I was a little concerned when I first saw and heard your presentation because I interpreted it to mean that you didn't support the development of standards against which outcomes could be evaluated. I'm pleased to hear that in fact you do support the development of standards and want to be a part of that. I believe that's extremely important and that you should be a part of that. I'm wondering if you had any information from the ministry about why you were left out of the development of those standards.

**Mr Klejman:** The process was twofold: first, the writing of the manual, and then the time frame for actually looking at and dealing with critical sections. In some cases it was a matter of a two-hour meeting, and



we do not consider that an open, consultative process.

**Mrs Caplan:** My own view is that long-term-care reform is essential, the development of a system. You're aware, and probably very few people watching these proceedings but most of those around the table would know, that what we've had until now really has been patchwork, where there has been no consistency and no way to evaluate whether people were getting the care they really did need at a reasonable price for the care they were getting. I'm pleased to see that one of your guiding principles is that there's support for the kind of outcome review and that there should be the test of quality and affordability in determining the development of a new system.

I heard you say that you don't consider yourselves part of the institutional sector, and yet the services your agencies provide are all inpatient; I know some of them have day centres where people come just for the day. Do you differentiate between the inpatient or those whose homes are in your facilities, the homes for the aged where people actually move in and that becomes their home, and your day hospital activity? Is that where you think the link is? I'm not sure why you wouldn't consider yourself an institution.

**Mr Mercer:** In terms of the history and the evolution of homes for the aged in Ontario, we started out as predominantly residential care facilities. I think in many respects that has been a benefit to our organization and to our members in that we subscribe to predominantly a social model of care provision. That's pervasive in the attitudes of the staff in the organization and in terms of the evolution and development of the programs.

**Mrs Caplan:** To be fair, when people decide to go into a home for the aged they feel they're entering an institutional environment. Isn't that true?

**Mr Mercer:** I would say that we have changed dramatically the physical structure of our facilities and the methods by which we provide care, so no, we have minimized the amount of institutional feel that people truly experience when they come to a home for the aged.

There's no doubt that within the continuum of services a home for the aged is not the first option that people will look for when they require care, and we've always supported that. It's been the mandate of the staff in facilities providing the continuum of services that we help clients find the most appropriate level of service, be that in the community or be that a part of our short-stay programs and a combination of community services. We're very much a part, and have been the pioneers in many respects, of many of the community services that are in place today. Home support in many areas of the province has been pioneered by homes for the aged in those areas and is continuing to be provided by those facilities.

**Mrs Caplan:** It's been my view that people should have the opportunity to remain in their homes for as long as possible if that was their wish.

**Mr Mercer:** Our view as well.

**Mrs Caplan:** I just wanted to make sure we still agreed on that.

**Mr Mercer:** Because of that, because people are staying at home much longer, what we're seeing is that the average age of admission for the facility-like services is much higher. The average age of admission is 85, whereas 15 years ago it was probably 10 years less than that.

#### ONTARIO NURSES' ASSOCIATION

**The Chair:** The next presentation this afternoon is by the Ontario Nurses' Association. If all those representing the association would come forward and make yourselves comfortable, I would ask you to identify yourselves for the purposes of the committee members and Hansard.

**Ms Jane Cornelius:** Seppo Nousiainen is one of our research officers; Lesley Bell is our chief executive officer, and Noelle Andrews is the director of our external services. My name is Jane Cornelius, and I'm the president of the Ontario Nurses' Association.

As president of the Ontario Nurses' Association, I speak on behalf of over 50,000 unionized staff nurses working in the province's hospitals, nursing homes, homes for the aged, community health units and industry. We welcome this opportunity to present our submission for the 1995 pre-budget consultations.

Last year, 1994, seems to have marked something of a turning point in our economy, if only a modest one. After four years of decline or modest growth, we saw a return to more normal levels, although not to the high levels of the 1980s. If the government forecasts prove correct, we may even have reason for guarded optimism. This provides a distinctly different environment for financial planning than in recent years, one that goes beyond cost-cutting, downsizing or otherwise slashing through budgetary restraints.

The last time we came before this committee, we asked the government to pause and assess its actions before engaging in further potentially destructive cutbacks, particularly in the institutional sector of the health care system. We also asked the government to re-evaluate its priorities and manage further restructuring in a way that would minimize further erosion of the system.

We recommended that this happen within the framework of our 1993 report, *Rethinking Health Care*. In that document, we emphasized the need to reallocate resources rather than increase funding. We set out the following 10 recommendations:

Make better use of resources so that only the most effective and least expensive treatments are used; shift resources from institutional care to community-based care; develop resources for better self-care; adopt provincial health goals; encourage dialogue between providers and consumers on realistic limits to health care; embrace new and innovative ideas and extend them more rapidly throughout the system; and finally, reorganize and make better use of the skills of registered nurses.

We still hold to all of these principles and goals and in the context offer our comments on the upcoming budget for 1995.

The same pressures that were evident in the institutional care sector last year continue in 1995. Institutional budgets, although held at the previous year's levels in

nominal terms, are in fact being reduced in real terms since no allowance has been made for inflation.

Layoffs continue as hospitals restructure their services. However, the real impact on labour incomes has occurred through a reduction of hours worked by nurses. This is now an industry characterized by part-time work—more than 50% of total employment. We see no end to this trend.

It should be recognized that the growth in part-time employment affects women disproportionately; over 95% of nurses are women. This is not advantageous at a time when women are supposedly making headway in society. Furthermore, the negative effects of part-time employment on aggregate demand cannot help the recovery, least of all those who are trying to re-enter the workforce.

As rationalization and restructuring continues to pick up steam across the province, many communities in Ontario are developing plans to merge hospitals or eliminate them altogether. The recent document *Managing Health Care Resources for 1994-95* reports that some 7,900 beds have been closed. Metropolitan Toronto can account for 3,000 of those beds alone and is projecting a further cut in excess of over 2,500 beds.

Further, it was reported that the average length of stay has declined from 8.2 days to 6.5 days, while inpatient acute care has decreased by over 5%. By contrast, outpatient services have increased by 10.4%.

This represents an enormous shift in the way we do things, yet we know of no evaluation to show how patient care has been affected. Yet these changes continue.

We raised this issue in our 1994 presentation to the committee and we are not the only ones to express this concern. The 1994 Provincial Auditor's report notes:

"The ministry does not have a system in place to monitor bed closures to ensure that service levels are maintained as beds are reduced, and that service reductions are not offset by increased waiting periods for treatment."

On the issue of decreased lengths of stay, the Institute for Clinical Evaluative Sciences notes that variations in how services are provided do not tell us whether services are timely or appropriate or whether community needs are being met, nor are outcomes known beyond simple indicators like in-hospital death and readmission rates.

These are crucial issues, and we once again ask the government to undertake and evaluate the impact of these changes.

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With respect to community care, year after year we are told that, as we deinstitutionalize, community services will be in place to substitute for some institutional services. However, while deinstitutionalization continues to take place, there has yet to be a corresponding increase in the community resources.

The Ontario Nurses' Association has recognized for years that community-based services must be in place before the institutional services are cut. Yet, as we told this committee last year, we are moving in the reverse order: deinstitutionalization before we have the community system.

Workers are affected as well by the lack of progress in community health. Government has repeatedly promised there would be plenty of jobs in the community once deinstitutionalization took place. This has not materialized, and the downsizing of hospitals has been far more painful than it needs to be. As we speak, RNs are being laid off in community agencies, which causes us again to ask the question: Has there been any planning in this sector at all?

Furthermore, the work of organizations like the health services training and adjustment panel has been seriously compromised by their inability to find jobs for displaced workers in community settings.

This brings us to the issue of the generic workers. To the best of our knowledge, there are plans to continue bringing in more of these workers as low-cost alternatives to more highly qualified workers in the community settings. The question remains, will these workers be truly able to do the job, and at what cost to patient care?

The government claims that continued growth in times of restraint reflects its commitment to the community-based approach to health care. It then says that in 1994-95 spending will increase by 5.3%. With all due respect, 5.3% of the total community and public health expenditures of \$600 million is a drop in a bucket—\$30 million—when total spending exceeds \$17 billion. Not enough is being done and the government knows it.

Furthermore, the multiservice agency program has barely gotten under way, since Bill 173 remains unproclaimed. With MSAs unable to coordinate services, we must wait even longer before real reforms are realized in this area.

With respect to other worthwhile initiatives, such as community health centres, health service organizations and comprehensive health organizations, evaluations on outcomes are still needed.

As the auditor's report notes, the community health branch lacks a computer system capable of collecting data in order to monitor the achievement of CHCs. Says the report, "Before any significant expansion of the CHC program occurs, the ministry should obtain information on the program's current effectiveness."

With respect to HSOs, it is noted, "While program objectives are being established, measurable performance targets have not been set to evaluate the achievement of these objectives on a timely basis."

On the issue of long-term-care reform, this area of the health care system continues to be inadequately funded. Although residents are getting older and increasingly frail, base budgets remain at their 1993 levels. Working conditions in nursing homes are particularly bad.

Recently, ONA conducted a quality-of-worklife study of our membership in nursing homes. This survey examined the relationship between staffing levels and the quality of worklife from the point of view of the nurses in the 171 nursing homes and homes for the aged.

The results were distressing. They indicated that in some homes patients do not always get all their medications and treatments simply because there are not enough nurses. Sometimes even basic needs such as nutrition are



not met because of staffing shortages, and it is becoming increasingly difficult to deal with dementia and violent behaviour for the same reason.

It was also found that participation in policymaking is not working, although there are supposed to be mechanisms in place to encourage such participation. Problems are most severe in larger units, where administrations seek to achieve economies of scale. However, nurses are often afraid to express their real concerns for fear of losing their jobs.

Community-based long-term-care reform is also being held up. While the province is not increasing the number of long-term-care beds, neither is it expanding home care services. This leaves families in the impossible situation of having to cope by themselves in very difficult circumstances.

In terms of the province's health insurance, payments have declined as a percentage of total expenditures. However, we have no assurance that the individual consumer is in fact not paying more.

Delisting of services is an ongoing process, and we wonder if individuals are simply not being forced to pay for services that were previously publicly funded. At the same time, we are aware of certain practices that raise the cost to the consumer, such as charges for administrative services and physical examinations demanded by employers and insurers.

It seems to us that more and more services are in fact being privatized in Ontario as a tradeoff, it seems, for restricting access to the public plan. Indeed, private expenditures on health care were reported to be 27.5% of total expenditures in 1990. This is an increase of 8.7% from 1980, according to the Canadian Hospital Association. Costs for drugs increased by an astonishing 267.6%, from \$71 per person in 1980 to \$261 in 1990. Since 1990, there has been further privatization and it would not be surprising if we were close to 30% in private coverage now.

The issue of the selling off of Blue Cross falls into this category and should be thoroughly investigated. What is particularly troubling about the sale is that investors see it as an opportunity for coverage of services that are either being delisted or may never be listed. Certainly, premiums will rise as we take this not-for-profit agency built by provincial tax dollars and turn it into a for-profit organization. This merely continues the trend towards privatized, for-profit health care. Those who can afford to pay will do so; all others will do without.

This flies in the face of the basic tenets of the Canadian medicare system, affordability and universal access, and once again we are left without any analysis of what really is occurring. The government should be monitoring the situation and making public all information so that informed debate can take place. We must ensure that as we cut back in the public system, the public is not being forced to pay privately for these services.

Ontario Finance Minister Floyd Laughren announced a new initiative for long-term public sector restructuring. On December 5, 1994, he outlined a plan that would require each sector under the social contract to establish

a job registry to match laid-off workers with job opportunities in the public sector. Resources from the job security fund created by the social contract could be used to get this initiative under way.

This plan falls far short of ONA's discussions with the ministry staff. ONA has repeatedly proposed that employers be required to hire from the pool of laid-off health care workers in all vacancies. We also proposed that the job security fund be utilized to provide these workers with the necessary education to successfully make the transition from one work setting to another.

Also needed is an employment security agreement, which would provide a broader coverage for health care workers beyond simply requiring employers to register job vacancies. This calls for human resource planning, pension changes to assist with early retirement, mandatory hiring and training and reallocation of dollars.

Finally, we would like to commend the government for its nurse practitioner initiative. The need for this program has been evident for many years, and it is heartening to see that it is now under way and that nurses are being recognized for their many and varied skills.

It is unfortunate, however, to see some members of the medical community wanting to fight against this and being willing to do so by lobbying their patients in their offices. We trust they will be deservedly ignored by both their patients and the government.

We have made a number of recommendations today on health care issues and their relationship to the budgetary process. In particular, we have emphasized the need for comprehensive planning as our system continues to evolve.

We also have urged the government to be cautious in its approach to change. We do not as yet fully understand the implications of moving to a new configuration of service delivery. In particular, we have concerns that if the change is not well planned or happens too quickly, there is a danger that the quality of care will suffer. At the same time, we do not want to place unnecessary burdens on those who currently work in the system and must bear the consequences of the change.

As we told the committee last year, we continue to believe that we have the time and the money to engage in the process of managed change where no individual or group has to bear unreasonable personal costs for change. There are enough resources in the system to take care of all of these problems without the need to further privatize health care services. All we need is the will to ensure that this will happen.

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**Mrs Haslam:** Thank you. That's a well-written report and I appreciate your presentation today. I have a number of questions and I shall start and they'll tell me when I can stop and when I run out of time.

Do you see that there are definite cost savings in the nurse practitioner program? I have my opinion on that, but in that cost saving, will that cost saving accrue to the ministry? Do you see that happening?

**Ms Cornelius:** There's no question that the nurse practitioner program costs money up front, but it's

certainly our belief the costs in the long run are more substantial and we'll end up with a better health care system.

**Mrs Haslam:** That's interesting, because my next question goes back to page 4. I hadn't anticipated that type of answer from nurse practitioners because I firmly believe there are cost savings there when they are used in a community in various ways.

You talked about upfront costs and one of them was that you reported the auditor mentioning that they lacked a computer system capable of collecting data in order to monitor the achievements. This again brings us to an upfront cost in a system as large as the health care system, a \$17-billion budget.

If we had to find within that budget that has gone through cost reductions in the first couple of years further reductions in second- and third-year budgets and in those reductions we had to come up with mega amounts of money to put this in place, would you rather see us do that in a health care budget, taking money from within the system to put into this type of program?

**Ms Cornelius:** I think the issue is that many agencies are planning their computers in isolation and there isn't a lot of coordination in the planning for the computers and there's probably a lot of money that could be saved if there was better coordination of the computer purchasing, coordination of what information would be collected through the computerization in that there would be more savings and there would not be large upfront costs.

I'll go back to the nurse practitioner. Yes, there is a cost in terms of education, but when we look at the cost savings and altering some global budgets now and utilizing nurse practitioners, there's a huge cost savings.

**Mrs Haslam:** I agree. I'm trying to say that there are costs in any program and we have people coming to the budget meetings saying, "We want more in the education system" and everyone saying, "But you can't raise taxes and you have to cut your expenditures," which we've done. Part of the expenditure cuts came from within our largest sector, and that was the health care sector at \$17 billion. It was a third of the budget. We've been able to manage the growth down to less than 1% a year, but now, to bring forward some other things that have to have funding, we have to look within that system for the money for those.

The computer system just happened to tweak me because I know how expensive some of those systems are in a ministry, and finding that kind of money within the system without affecting your program or OHIP program or the doctors' program or assistive devices program is becoming more and more difficult. Do you feel it's worth it to do it now, even though you yell and scream about your program being cut, because you feel it's better for the long run?

**Ms Lesley Bell:** I think you've raised some good points. The point we want to make, though, is that we've said for a long time that there's enough money in the system but it's a question of reallocating it appropriately. We've all recognized that fee-for-service with increased utilization just continues to increase the cost to the

system, so we've got to look at that one point.

But one of the other things is that we're spending, as you've pointed out, \$17 billion already, yet we have very few outcome studies. We don't know if the moneys we're spending on health care are effectively helping the health of Ontarians. For a lot of these outcomes to be monitored, you have to invest some moneys upfront in computer systems and tracking mechanisms to determine whether your moneys are being utilized appropriately.

**Mrs Caplan:** I was sitting listening and smiling as you were answering, Lesley. I agree with not all but just about everything you said, and I think at one time I said it. So it was interesting to listen.

Certainly there's a need for greater coordination. One of the things in your brief that I'd like you to spend a couple of minutes on—I'll tell you, I'm also very concerned about the delisting of services and the shift to private, because we know that when you consider health expenditure as a percentage of gross domestic product or per capita expenditure, Canada and Ontario are the most expensive national health system in the world, second only to the United States. When you consider that, it doesn't matter who pays: A dollar is a dollar is a dollar, and in fact you're not helping your economic competitiveness and the health status of your population by shifting to someone else's budget. The privatization and the Americanization of our system is a great threat to our achievement of medicare. I wanted to make that point.

But you know of my concern that nurses have a say in the changes that are taking place in the—call it what you want—restructuring of the health system, or health reform, which is what I prefer. I'm concerned that you've made the point of saying that nurses are afraid to express their real concerns for fear of losing their jobs. I'm wondering, how much of that is real, is it happening, and what do you think can be done about it to encourage the participation of nurses in not only voicing concerns but also helping to plan those changes that are taking place in the workplace to make sure that people get the care they need, the most effective and high-quality care? Can nurses speak out and are they speaking out when they see things being done that shouldn't be done?

**Ms Cornelius:** There's no question more nurses are participating in the system now and on committees, but part of the problem is, number one, are they decision-making committees or are they just consultation for the purpose of saying consultation occurred?

The second part is that in terms of the restructuring going on in the system, jobs are tighter and people are afraid to speak out. We do have situations where people are voicing the concerns internally to us because they don't have the confidence or feel secure in voicing them at the employer level. There's no question that it's real and that people have been disciplined for speaking out and speaking against their employer, and we have grievances and arbitrations in the system fighting those same issues.

**Mrs Caplan:** Are there forums being provided so that nurses—and I'm not talking about the normal kind of grievance. I understand that those take place all the time.



What I'm interested in is whether nurses are feeling they are more a part of decision-making in how changes are being made, whether it's in the hospital system or in the community system, particularly as you're seeing the redeployment, and jobs are changing even within the system. Are nurses a part of that?

**Ms Cornelius:** It's only legislated in terms of the regulations under the Public Hospitals Act as it relates to hospitals. Our community members and our members in the homes don't necessarily have that same luxury of participation on committees. There's no question that some employers do, but not, by far, all.

**Ms Bell:** But if I could give an example of even where nurses are on the committees, we have them having to sign oaths of confidentiality when they walk in, being muzzled. What we looked for during the social contract negotiations was some kind of whistleblowing protection when we're able to raise specific institutional problems, and that wasn't forthcoming. We have nurses, obviously because of the job market, very reluctant to speak out while we recognize that there are huge wastes institutionally.

We're getting more involvement at the district health council level, and I think that's very important, to have front-line workers there when you're planning for the health needs that cross boundaries from institutions to the community and so forth.

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**Mr David Johnson:** Thank you very much for your deputation. Having been associated with the Toronto East General Hospital for a few years and being quite familiar with True Davidson Acres home for the aged, I can identify with many of the problems that you have indicated in the report. I must say that institutions are having to go through considerable change and adjustment. It's been difficult, and they're doing quite a good job.

But the basic problem—it's an analogy that just occurred to me, so it's probably not a very good one—is that it's almost as if you bought a puppy and allowed the puppy to go to bed with you when it was small, and that was fine, but the puppy turned out to be a St Bernard, and as the years went by it essentially is crowding you out of the bed. That's what's happening in the province of Ontario with interest payments. The interest payments in the budget are crowding everything else out. They're crowding health care, they're crowding education, they're crowding all sorts of services.

Our approach, what we're suggesting should happen, is essentially what I think you're saying. We're saying, "Protect the dollars for health." I think I heard you say we have enough money, \$17 billion, in health, and that should be protected. Seal the envelope, but let's look at how we spend the money, and let's see if we can do it more efficiently.

I was interested that you indicated we really should have outcome studies. I wondered if you could expand on that, where you would start or what sort of outcome studies you would propose that should be undertaken.

**Ms Bell:** I think the Institute for Clinical Evaluative Sciences is looking at some of the medical practices. We

all need to recognize that the physicians are still the drivers of the system, physicians' prescribing habits, their treatment habits. For a lot of them, in my experience as a registered nurse, the latest drug on the market is the one we use, regardless of the fact that we know the good old standard one that costs four cents per pill is as effective. Those are the kind of outcome studies we're talking about.

But that's strictly dealing with the medical model. Our concern with health is that if you don't start looking at some of the social determinants of health, you're going to continue to spend more money on the last two weeks of life or the first two weeks of life without recognizing that you have no money for the middle, and you're going to end up with less than a productive outcome at the end.

The outcome studies that we're looking at in nursing are going to revolve around the nurse practitioner project and also a province-wide project in trying to determine the outcomes that nursing intervention has. We intuitively know that nurses taking people and toileting them will eventually save money in bladder infections and those kinds of things, but we need hard research data. That's something that we as a profession are taking on, but I think it needs a broader application in outcomes as it relates to the health of Ontarians.

There are all kinds of research people who can give you specific ideas they have, and I think we're starting on them, but for the most part they've been limited to medicine. When you consider that they're still the heaviest driver of the system, it makes sense to start there, but don't limit it to that.

**Mr David Johnson:** One other point that you made, just as we come to a close, is that you had suggested we should encourage dialogue between providers and consumers on realistic limits to health care, which is an interesting concept. I wonder if you could elaborate a bit on that, what sort of limits we're talking about.

**Ms Cornelius:** Well, they're the hard choices: When do we say no? When do we not dialyse? When do we not do some oncology procedures? What kind of services in terms of comfort? They're big questions not only for the government but also the taxpayers.

CANADIAN ENVIRONMENT INDUSTRY ASSOCIATION,  
ONTARIO CHAPTER

**The Chair:** The next presentation this afternoon is by the Canadian Environment Industry Association, Ontario chapter. Please make yourselves comfortable and identify yourselves for the committee members and Hansard.

**Ms Lynn Johannson:** Good afternoon. First of all I'd like to thank you for the opportunity to speak here today. I'm Lynn Johannson, president of a company called E2 Management Corp. We specialize in assisting corporations in Ontario and other countries on how to be more competitive using environmental management systems. With me are the president of the association, Mr Gary Gallon, and Ms Dusanka Filipovic, who is the founder and deputy chair of Halozone Recycling Inc. Dusanka is also the inventor of the technology her business supports.

We'd like to thank you again for this opportunity. We recognize we are in a time constraint situation, as every-

body else is these days. The purpose of our appearance here today is to speak, on behalf of the environmental industry in Ontario, to matters that relate to the budget that affect our industry sector and that will also lead to improvement in the provincial economy.

The environment industry itself has grown dramatically over the last 10 years. It is now among the five largest industries in the country. Our sector employs approximately 92,000 people, generates average revenues of about \$11 billion a year and our historic growth rate is about 6% to 8% per annum. Over 40% of the environment industry is located in Ontario, where we employ approximately 36,000 people.

CEIA Ontario is a private sector association dedicated to helping its environmental company members strengthen their business activities not only domestically but internationally. In doing so, we hope to make our customers more competitive and also improve the environment. We are firms of the "new economy." We work towards achieving sustainable development. We assist our customers in becoming more competitive, essentially making them leaner, keener and greener.

Specifically about CEIA Ontario, we are a relatively new business association. We were created in 1991 with a handful of businesses. We have grown rapidly in the last four years to approximately 200 member companies, representing also crown corporations and other associations. We are essentially an umbrella organization. In doing so, we also represent the interests of some 2,200 environmental companies in Ontario.

Our industry is very diverse. We represent technologies, products and services. CEIA Ontario represents companies working in the fields of environmental technologies, total quality and environmental management, pollution control, waste management, pollution prevention, environmental law, environmental assessment and auditing, environmental measurements, energy and water use efficiency, environmental law and soil and sediment remediation. We also have laboratories, air and water pollution control equipment suppliers, environmental auditors, energy services, site remediation, environmental R&D, consulting engineering, financing and environmental assessment companies. We have other environmental industry associations. We also have representation from the municipality of Metropolitan Toronto and major crown corporations, such as Ontario Hydro and the Ontario Clean Water Agency. Other associations include the Independent Power Producers' Society of Ontario, the Canadian Polystyrene Recycling Association and the Canadian Wind Energy Association.

Our association works with both Canadian companies and international companies together to leverage our resources on projects and to export our joint expertise. Our association holds workshops and seminars to help educate not only our members in the rapidly changing technologies and science skills that are coming forward, but we also provide these services to other members wishing to have a similar educational background.

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We host business delegations coming in from foreign countries. In the last few months, actually, we've done

Mexico and China. We've worked with federal and provincial governments in setting up environmental business trade delegations to other countries and other areas such as Europe, Asia and Latin America.

We are a repository of information on the capability of Ontario companies and new commercialized environmental technologies. We host monthly breakfasts so that people can share in a networking opportunity of new and emerging technologies and business opportunities. We also have government representation coming there to share in a more informal atmosphere.

We also produce a monthly fax intelligence newsletter where we bring business opportunities from around the world to Ontario companies.

There are also nine other provincial associations in parallel to ours. We work closely with the Ontario Ministry of Environment and Energy and the Ministry of Economic Development and Trade to promote our sector. We participated on the Green Industry Ministerial Advisory Committee, also known as GIMAC, during the formation of the green industry strategy announced by the government on November 15 of last year.

We have cosponsored the annual Environment and Energy Conference of Ontario in November, which hosts more than 700 participants in one of Canada's oldest long-standing conferences. We have worked with the MOEE to send trade delegations to the World Bank.

CEIA also works closely with the Ontario Centre for Environmental Technology Advancement based in the Toronto Economic Development Corp, or TEDCO, offices in the port of Ontario. OCETA there has a professional staff of seven and is helping Ontario companies commercialize and advance their environmental technologies.

In helping Ontario companies and Canadian companies become more competitive, we see that out of 14 recommendations we've put forward today, there are three primary ones we would like you to pay special attention to. One is the timely implementation of the green industry strategy, which was worked on with the government. The second one is to reduce tax-assisted competition to make a level and fair playing field, and the third is to maintain and enhance funds for environmental research and development.

What I would like to do now is turn the discussion over to the association president, Mr Gary Gallon, because Gary can elucidate these points more clearly than I.

**Mr Gary Gallon:** Thank you very much, Lynn. One of the reasons we're here today, as a private sector group, is to first of all indicate quite clearly that we are keen to see government reduce its expenditures and live within its means. We, as the private sector, then also want to be able to help do that with you and for you. In that regard, we'd like to give you some examples today of what we propose in attempting to do this.

We, as an industry sector, are going to be generating jobs, revenue and tax income for you. We're going to be doing this by way of moving out to export our technologies that have been developed here over the last 25



years as a result of stringent regulations that have been developed ever since 1971 with the Environmental Protection Act.

Of the 14 recommendations you can read in our submission to you, I'd like to deal with just a couple of them, just to give you some examples. The first one is tax-assisted competition. There's a problem here when government agencies want to go out and pay their way. They end up paying their way by competing with us and they do it by saying: "Here, we'll take some government money and we'll lower our bids because we're tax-assisted. Our labs are paid for, our sewage treatment plants are paid for. Now we can go out and bid against the private sector," which has to pay its own way. So they are using taxpayers' money to go out and underbid the exact same private sector that is generating wealth, generating new employment and, most of all, generating tax revenue for you.

What our companies have been finding then is that we are dying. We either have to leave the province—Clayton Environmental has already left; there are a number of other companies that need to go elsewhere to generate revenues—or we are reducing our salaried and employed staff in order to try to compete against crown corporations, crown agencies, which themselves are already spending taxpayers' money to undercut us.

This is happening to us in the field of energy, laboratory services and the field of sewage treatment. So we're looking forward to certain crown agencies such as the Ontario Clean Water Agency, often called OCWA, to become more private sector, in fact possibly become sold into the private sector, in order to become more efficient and more capable of developing an export market capacity, and at the same time to be private sector oriented on their own two economic feet and basically out of the trough of the government and contributing to where government needs revenues to pay for real expenditures to help the common good.

Another area is decision-making. Quick decision-making is dollars. The quicker government can make decisions on demonstration projects for new technologies, the sooner it can make a determination of which way it's going to go on, for example, the soft drink issue. Is it going to go refillable containers? If it does, we have a whole green industry ready to put in bottle washing and collection systems. But they've been waiting there with their several hundreds of millions of dollars to come in. Is it going to go recycling and blue box? In that case we have a ton of recyclers out there ready to move quite rapidly with an expanded blue box system on recycling. But if the decision isn't made, then we sit for years with money set aside in the back lines not ready to be spent. So I think you could generate good economic activity for a better Ontario by proper decision-making processes.

The other one is to approve demonstration projects more rapidly. What do we have downtown but Ataritari and other brownfield sites that have toxic contamination within the soils. The cleanup, as I understand it, for Ataritari, for example, has increased from \$16 million—an estimate—to over \$100 million. What we've proposed is that there are a number of new, economically efficient

technologies that can be applied, and they should be demonstrated there onsite so that they can be used to decompose PCBs, break down dioxins and help the community actually develop what now is a blighted area, a hole in the core of a strong Metro Toronto, and an area that should be redeveloped for our own good. We have the technologies to do it but cannot get the rapid approvals to do it.

We have been working with the Ontario Ministry of Environment and Energy. We're getting some good progress there and we hope we are able to get into a situation where we can have demonstration projects that work over a six- to 12-month period prove themselves. If they're good, then they get long-term approval to go out and help clean up sites in Hamilton, Sudbury, North Bay, the military sites.

Finally, just to give you some examples of what we might do in the near term, the G-7 is going to occur in Halifax this year, and so we're going to have the major nations and the major prime ministers and first ministers in Hamilton to discuss the new economy of the world order. Before that, we propose to host a meeting of the G-7 environment ministers in Hamilton. That proposal has been put on the table by the federal government. There's an opportunity here to showcase Ontario's technologies. If we've got the minister's ear from Denmark and from Mexico, from France, England, Germany, we can showcase. So let's work with the federal government, the municipality of Hamilton-Wentworth, and start to sell our technologies and processes.

Finally, there's a proposal for a framework convention climate change secretariat to be based here in Toronto. Let's get it. We're bidding against Bonn. We're bidding against Japan. They want it. They're putting money on the table. We found that the other international secretariat on the Montreal convention for CFC reduction based in Montreal has led to a number of contracts, over 100, with our companies in developing countries and in Europe to help them reduce their CFC emissions and their ozone-depleting substances and begin recycling and putting in new and different products. We can now do the same thing if we have the climate convention secretariat here in Ontario.

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**Ms Dusanka Filipovic:** I represent a company by the name of Halozone Recycling Inc, which is an Ontario-based company, one of those small-sized companies, so far only three years old. I'm a co-inventor of the technology known as the blue bottle technology, which was specifically designed to come up with a solution to an environmental problem of global concern, being the ozone protection and ozone depletion. The technology is 100% Canadian technology with worldwide patent protection and it eliminates emissions of ozone-depleting compounds as well as global-warming compounds down to zero. Not only does it eliminate emissions, but it also reclaims, recovers, recycles these compounds for reuse. So theoretically, the marketplace is basically global, it is not just Ontario and in fact it is not just Canada.

I'd like to emphasize the importance of the government assistance that we had certainly received over the last

perhaps six years in developing the technology and the assistance with the financial and technical support provided by the Ontario government as well as the federal government of Canada. However, some kind of milestones and roadblocks that we have been experiencing now that the technology is developed and recognized, as such, I'd like to share with you.

For one reason, I'd like to propose that legislation—as opposed to what a lot of people think, legislation and proper regulations specifically with the technology in place to meet the regulations are extremely positive and they are really enforcing innovation in new technologies. They are basically creating new jobs. For our company alone, we were only two people three years ago; we now have 40 people and we already have affiliations not just in Canada but also in Europe and the Philippines.

However, in order for someone to be successful internationally, we first have to be successful in our own backyard domestically. So for that reason, local regulation is important, and not only regulation but also enforcement. The regulation of CFC emissions—that calls for no venting on CFCs, HCFCs and HFCs, which in fact are CFC substitutes, but also not so good for the environment; they may be ozone friendly but not environmentally friendly—came in place April 1994. When you ask me now how many buildings in Ontario are really complying with that regulation, I can just count them perhaps on one hand. So what we are finding out, that really without the proper enforcement of that regulation, regulation is really almost meaningless, which is a real shame considering the amount of time, money and effort that had been spent in coming up with a regulation that is very meaningful. I'd like to suggest that really financing of these enforcement issues is very positive and again they do create jobs. They also focus on the kind of environmental technologies that are performance oriented rather than equipment oriented.

Another point is in order to go internationally, we really need to have some demonstration projects on an international site. So financing and programs that are in place to actually sustain that kind of expenditure is very positive and we like to propose that this stays in place.

Also, when we talk export, most of us feel Asia or Europe. However, how about the USA which is our next-door neighbour? Specifically, in the CFC reclamation and recovery business, the business is global but most of our clients and customers in Canada are basically US-based headquarters. So basically we should be able to cover both sides. Our plant in Toronto can handle all the used refrigerant that has been recovered from the refrigeration and air-conditioning equipment right here in Toronto. What we would be able to do is to bring our raw material from the US, let's say from New York or Boston or Montreal, the same way we bring it from any other city within Canada or Ontario. In order to do that, we would need certain exemptions from the importation act in order to sustain that business and be able to bring the material from the US to Toronto to purify, reclaim it for them and bring it back into the US, which actually will enhance our business opportunities and business success dramatically.

I think I ran over my time. I can talk a lot, but I'd like

to stop at this point. Thanks very much for your time.

**Ms Johansson:** I'd just like to close at this point and tell you because I'll provide you with the apologies of our chair, Dr Anton Davies—he was hoping to be here today but a death in his family precluded that activity—and leave you with the parting thought that there's a growing recognition that a healthy environment and vibrant, competitive economy are mutually dependent, and we're here to show you that.

**Mr Kwinter:** I found your presentation very interesting. I'm a great proponent of green industries and I think that we certainly have a story to tell. I agree with you that Canada and Ontario are among probably the top five countries in the world when it comes to environmental development and the development of its industry.

One of my concerns and a concern I had when I was the Minister of Industry, Trade and Technology, which is now Economic Development and Trade, is that sometimes the government would set standards and criteria to be met by a fixed period of time and the technology wasn't there. That created some serious problems. Have you, as an organization, addressed that problem?

**Mr Gallon:** We sure have. What we found is that often the technology was not there. What we did, then, is to provide time for the technology to be developed. A classic example is Inco on acid-gas rain—emission controls for a 66% reduction. We gave them three years; they came up with a proposed new technology and then they developed it in-house. Now they're going to be one of our best environmental technology exporters as a result of changing the process by which they smelt nickel. By having made that change, they can now go into eastern Europe and sell that same kind of flash technology, a technology that they didn't have at the time the regulation was written.

So regulation definitely, as Dusanka says, drives the technology. Even with the CFC regulations announced in 1989, the blue bottle technology had not been perfected yet and a number of the other technologies—I think they just now have a CFC refrigerator developed as a result of being driven by regulation and the need to get CFCs out of our production system. So it can happen and it's an effective way of driving innovation. That's why Canada today, because of its need to clean up the Great Lakes over the last 25 years, has so many technologies to export.

**Mr Kwinter:** One of the other areas that I have is that when you take a look at automobile emissions, a lot of our legislation is predicated on the California standard. I find that a little disconcerting, because I think we should be establishing our own standards. Do you have any comments on that?

**Mr Gallon:** The California standard is the most advanced because they're the most polluted within their basin. We have been able, by sideways glances, to take their automobiles that they've been developing for California and other parts of the States and use them in Ontario as cleaner-emission vehicles. That has made us much cleaner than, for example, Mexico City, where our Canadian Embassy officials are only allowed to stay for two years because of the black lung problem, the health



problem is so bad. So by incidence, we've been able to benefit by the regulations in California.

To say that we should achieve California standards at the same time they do, probably not; a phased-in approach, definitely yes. It'll be much healthier for our economy. For example, the legumes, beans and the other types of farm-grown products in Sarnia have a 15% reduction in growth production as a result of ground-level ozone created by automobiles and stationary sources. So already, if we take that ozone out of the air by using California-level standards, we're going to increase the productivity of our farmers.

**Mr Carr:** Thank you very much for your presentation. It was very interesting. In number 5 on page 5 you talk about helping expand the export markets and you went into great detail. I myself, similar to what Monte suggested, realized that this is an industry that has a tremendous amount of potential for us. As you know, the Ontario government had offices around the world that it closed because of the fiscal situation, and its feeling is that through the Canadian embassies and offices we can do that.

I know you suggested working with Ontario Hydro and so on, but do you think Ontario industries can do it through the Canadian offices, or would you like to see the Ontario government have some offices around the world to help with export markets for industries like yourself? Can it be done using the Canadian offices, in your estimation?

**Ms Filipovic:** If I may answer that, we had some experience with that, actually, before and after the offices had been closed. Yes, Canadian offices can be used, but we definitely would like to see what used to be, in the past, in every country, trade commissioners and people who have that focus mandate to work directly on promoting your technology and identifying potential joint-venture partners for a strategic alliance.

**Mr Gallon:** Right now we also have excellent assistance from the Ontario Ministry of Environment and Energy as well as the Ministry of Economic Development and Trade. Today they are taking a delegation of 15 of our companies down to Washington to meet with the World Bank, the Inter-American Development Bank and to help our companies begin to reach out and actually sign up on the World Bank registry system so that we can begin to do contract work with them. So even without the trade offices of Ontario located in those areas, we're now getting substantively better assistance where we had not gotten it before, and we think that can be built upon.

**Mr Carr:** That's good to hear, and good luck to all of you.

**Mr Sutherland:** We greatly appreciate you coming forward today. I'm glad to see that more North American companies are realizing what companies—certainly if you look at what Japan did with its auto industry, because of

the need for energy efficiency, not having their own sources of oil, what European countries have done in terms of some of their technology, to see that is occurring here.

It was interesting to hear that regulation can be productive for the economy. We often hear that it's the problem in the economy, in creating jobs. I notice you did use the words "appropriate regulation," and what that definition is depends.

I just want two quick questions. Do you have a problem with private financing of new technologies? This seems to be a concern about how we finance ideas, and banks come under some criticism for not having to do that when you don't have your own collateral. Even in these difficult economic times, are businesses still seeing the advantage of doing environmental activities? I mean, if you're looking at cutting costs, it would seem that, "Well, maybe we'll wait on doing our green program because we want to cut costs to meet our bottom-line targets."

**Ms Johansson:** I'll take the challenge of this one on. When you're looking at private funds, I'm sure anybody who doesn't want to give away their soul to a venture capitalist would love to have capital. This is not a comment specific to Ontarians, but Canadians aren't known for supporting high-risk activities. Too many of our companies actually go to other countries where the higher risk factor is more comfortable and so you do see some of those activities going on.

In terms of the latter part of your question, the environmental issue is starting to come out of being simply regulatory-driven into being more of an innovation-based situation. There are international standards now being set up for environmental management systems. The ISO process is bringing forward a series called the 14,000 series which is parallel to the quality management process.

I think you'll see over the next five years a greater dependency on having companies do voluntary standards because of international market pressures. You simply can't ignore those kinds of things, and managing a company environmentally will mean managing a company more effectively and more efficiently. The market pressure will push that, maybe not so much in the domestic companies which have an internal market base, but anybody who's got an international basis can't ignore that issue for very long or they will not be in business, in my estimation.

**The Chair:** I'd like to thank the Ontario chapter of the Canadian Environment Industry Association for making its presentation before the committee this afternoon.

This committee stands adjourned until 10 am tomorrow morning.

*The committee adjourned at 1703.*





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Hope, Randy R. (Chatham-Kent ND) for Mr Wiseman

Malkowski, Gary (York East/-Est ND) for Mr Abel

### **Also taking part / Autres participants et participantes:**

McGuinty, Dalton (Ottawa South/-Sud L)

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### **Staff / Personnel:**

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McLellan, Ray, research officer, Legislative Research Service

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ISSN 1180-4386

**Legislative Assembly  
of Ontario**

Third Intercession, 35th Parliament

**Assemblée législative  
de l'Ontario**

Troisième intersession, 35<sup>e</sup> législature

**Official Report  
of Debates  
(Hansard)**

Thursday 9 February 1995

**Journal  
des débats  
(Hansard)**

Jeudi 9 février 1995

**Standing committee on  
finance and economic affairs**

**Comité permanent des finances  
et des affaires économiques**

Pre-budget consultations

Consultations prébudgétaires



Chair: Paul R. Johnson  
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## LEGISLATIVE ASSEMBLY OF ONTARIO

## ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON  
FINANCE AND ECONOMIC AFFAIRSCOMITÉ PERMANENT DES FINANCES  
ET DES AFFAIRES ÉCONOMIQUES

Thursday 9 February 1995

Jeudi 9 février 1995

*The committee met at 1002 in room 151.*PRE-BUDGET CONSULTATIONS  
ONTARIO FEDERATION OF LABOUR

**The Chair (Mr Paul R. Johnson):** The first presentation this morning is by the Ontario Federation of Labour. I'm sure that all the members of the committee know who the representatives are, but if you would identify yourselves for the purposes of Hansard, I'll remind you that you have 30 minutes within which to make your presentation and field questions from the committee members. Whenever you're ready, please proceed.

**Mr Gordon Wilson:** I'd like to introduce who is making our presentation this morning. Ken Signoretti is executive vice-president of the federation; Julie Davis is secretary-treasurer of the federation; Chris Schenk is the research director of the federation. My name is Gordon Wilson.

We have made a presentation in writing; we believe it's been distributed to members of the committee. What I'd like to do, if I can, is try and summarize that presentation and perhaps leave some chance or some opportunity for dialogue.

Firstly, what we'd like to bring to the committee's attention regarding the economy and the economic reality of Ontario is that we see as still the government's number one priority jobs and job creation. We would urge the provincial government and the members of this committee to report to the House that a full employment strategy is a desirable objective, in fact a required objective, with targets and timetables if we are successfully going to be able to reduce the level of unemployment within the province.

It's interesting to note the cost of unemployment looking across Canada. You can carve out the Ontario figures from this if you wish, but there was a study done in 1994, which is quite recent, by Bellemare and Poulin-Simon which indicated that across Canada the rate of unemployment that we currently have to suffer is costing the Canadian economy \$109 billion. We know that for every decrease of 1% in the unemployment rate we're able to carve \$2.5 billion off the federal deficit. You can deal with the Ontario numbers from that.

What we're saying is that the economic and budget difficulties that the province and indeed our country face are more a question of revenue than they are a question of expenditure cuts. We would like the government to approach it from that perspective of job creation which brings in additional revenue rather than dealing with the question of cutting services that people require.

In that regard, I would like to compliment the efforts of the Ontario provincial government. I note that the December unemployment level was down to 8.4%. No one's saying that's where we want it to be, but it shows a marked improvement. As well, we want to draw to the attention of the committee that we are appreciative of the growth rate of the Ontario economy at 4.5%, which is the best performance in Canada, indeed in the OECD.

But attached to that is a note of caution in that the growth rate, we can see, is no longer a total remedy for reducing unemployment. The Ontario growth rate, as good as it is—the best in Canada—still is three times greater than or ahead of the job creation rate, the new jobs in the economy. So in this new economy that's developing, different than the old economy prior to the trade agreements, there are a number of people being left behind. In fact, if you go closer to the numbers, in Ontario, 47% of seniors live below the poverty level and the poverty line. So that's a clear indicator.

We are aware of the debt and deficit problems that the government faces, and we are also aware that many of the solutions to those problems are not in the hands of the provincial government, when one looks at trade policy, monetary policy, interest rates. But with the interest on the debt now at \$8 billion a year eating up about 17.5% of revenue, we would urge the government to look at the revenue side as a solution by increasing their efforts for job creation, because revenue collection through people working is really the solution to reducing debt, not cuts, as has been demonstrated in other parts of the country.

So we are pleased that the government has not resorted, as an example, to the slash-and-burn strategy of the government of Alberta, which victimizes those people in society who are most vulnerable. The people of Ontario, as we all know, want jobs. They want to work, those people who can work. Attached to that, of course, are the people in Ontario who equally require and need the maintenance of public services that the people of Ontario depend upon.

We're asking the government to use its influence at the federal level as well in the discussions you will have with the federal government and the government's nuances about proposing block funding to the provinces for health, education and social assistance. If that were to happen, Canada would become very much a patchwork of standards. There would be no universality, no Canadian standards. It would be the first step down the road to disaster across our country. So we would ask you in your discussions with the federal government to forceful-

ly oppose the suggestion about block funding for those three areas.

It's clear as well that the federal government, which is part of the problem for the Ontario government, has a preoccupation at the moment with deficits and with high interest rates, and it appears that the Finance minister federally has separated the financial economy from the real economy.

Recovery is not for everyone, as we know from the statistics that we see out there. We know that in Ontario there are still thousands of workers who, through the effects of the FTA and NAFTA and the Bank of Canada monetary policy, have not found their way back into the labour force. They have not yet returned, and for many of them their future doesn't look that bright.

There are additional troubling signs as we move to this new organization to work this "new" economy that we face. For example, we see a dramatic increase in part-time workers within the workplaces of Ontario and a concurrent decrease in full-time workers.

We see as well—the numbers will support this—that those people who work in full-time jobs, who work excessive hours, additional hours beyond the normal workweek, are those who are still able to maintain their high income by working those additional hours, but those people who are on the lower end of the income scale tend to be part-time workers who are not well paid, and this trend continues to accelerate. It's also important to remember that in that part-time grouping, the three largest groups clearly are women, minorities and those people who are immigrants to our country. So that has to be addressed.

We're also aware of a troubling and disturbing trend with a number of large employers in the province—IBM and Xerox, to name two—where they are relying now upon the shedding of full-time employees and their benefit costs in return for employing people on a contract basis through employment agencies. This is a disturbing trend that we see developing out there as employers are trying to find a way to reduce their costs.

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In looking for solutions to how we deal with the question of the organization to work, I would recommend to the provincial government the report of the federal government advisory committee which recently reported, which had attached to it a number of ways to deal with the question of the phenomenon of part-time work and the phenomenon of overworked full-time workers. The thrust of their report was that a major reduction in working time would yield more jobs.

For example, if we were to make overtime voluntary, and this is within the realm of the provincial government, it is believed that those workers who were lined up, 25,000 of them, at General Motors might have access to more jobs if GM were working less time. Or at Air Canada there might be more people working, certainly not in the air but differently, on some of their ground operations, if people were required to work less overtime.

We would ask the government to seriously look at a statutory 40-hour work week. There is no reason to have

a work week longer than 40 hours in the province of Ontario if we're seeing that the new economy is not providing work for people who want to work. You can deal with the question of overtime as well in terms of putting in place some regulation which says that people who have to work overtime don't receive payment for it but they get time off in lieu.

That was again another way of opening up some jobs, and you can maximize overtime at 100 hours per year. These were all recommendations contained within that report, to apply equally to hourly paid workers and of course to salaried workers as well.

Dealing with the question of part-time workers, if I could just make a couple of points that I think are very important, there has to be some way of applying employment standards which are vigorously enforced to the growing cottage industries of telework and home work and other variations of work, away from what we have been used to, that are starting to develop. But in order to do that, you're going to have to develop some system of formal registration to cover those employees who work at home to enable these standards to be enforced.

We know that is a growth area out there, people being asked to work out of the home, where in effect the home then becomes the workplace in addition to being the home. We would argue that employers should be statutorily required in this regard to provide prorated benefits to regular part-time employees so that we could begin to stifle the phenomenon I mentioned earlier where a number of major firms are reducing their regular workforce and hiring employees from employment agencies in order to shed their benefit costs.

With regard to retirement, we would ask the government to give some consideration to the changing of pension rules to again deal with the question of reduced hours and surplus ownership and, of course, unfunded liability. I note with interest that employers in the province of Ontario are demanding that the Workers' Compensation Board's unfunded liability be retired, and yet I hear no one in the employer community talking about pension liabilities being retired. It's an interesting phenomenon.

With regard to family leave, again there's a way of dealing with the question of distribution of work. We would urge the government to move to adopt the Quebec standard of 34 weeks' leave after birth or adoption of a child.

Education and training: We of course are encouraged by the government's activity in the creation of the Ontario Training and Adjustment Board, and hope that will prove fruitful. I know there are a number of people working very hard in both the employer community and the worker community and other communities to try and make the OTAB initiative be a successful one. But we would argue again that part of that whole plan has to be to encourage the increased adoption of paid education and training leave plans so that people can find ways to equip themselves with some employer responsibility in that process as they try to find their way back into the workforce, and of course, to expand access of the UI work-sharing program to reduce short-term layoffs.



On pensions I just want to hit a couple of things. The question of pension surplus ownership is very important to us. The matter of a surplus on a windup of a pension plan should be enshrined in the Pension Benefits Act in order to protect the rights of the employees who were participants. Where a surplus exists on a plan windup, it should first be utilized to protect against the erosion of pensions due to past and future losses to inflation—I just draw to the committee's attention those two points, not to exclude the others—and where there is a dispute, there should be a dispute resolution mechanism whereby an arbitrator could be appointed to bring finality to the matter of dispute with regard to surpluses and other matters attached to pensions.

Let me just make two other quick points and then we'll leave it open to questions to anyone within the federation delegation. Firstly, we'd like to compliment the government on its initiative in creating the Ontario savings bond proposal. The sale of these bonds, we are heartened to see, will give the Ontario government, I think, an avenue by which it can begin to repatriate some of our debt, which is part of our problem, as we are all aware.

But we would urge the government to lift the restrictions on the issue of bonds and RRSP purchases so that they can be done year-round. I don't see anything wrong with the government of Ontario being in competition with the financial sector, and I believe there are a number of people within Ontario, including our membership, who would want to invest in Ontario through the Ontario savings bond program as opposed to putting their money into some commercial financial institution that may be investing the money to take the jobs away from the workers who live here. We've seen examples of that; there's no need to go into that in great detail.

Finally, I would ask the government to pay some attention to the report that will be received at some point by the Royal Commission on Workers' Compensation, which among other things in its mandate is to look at a universal disability insurance program. We are arguing today not just from the perspective of it being justice for injured workers or anyone injured in the workplace or elsewhere to be able to remain an active participant in the economy, but it just makes good economic sense for people to have some process whereby, if they are removed as an economic unit from the economic model, they can continue to participate as consumers at least and therefore continue to fully support the economy and to participate in it as consumers through an unfunded disability insurance benefit.

I thank you for your attention, excepting this final point, and it's important to us and we would ask the members of the government who are of this committee to be particularly attentive. We are asking you yet to abolish the social contract.

The economic growth in 1994 in this province, as I said, was 4.5%. It is projected to be 4.2% in 1995. We would ask, given the perspective of at least the economy continuing to roll, that workers in this province be allowed to return to collective bargaining. This would help, of course, in the whole process of income distribu-

tion as collective bargaining always is a major lever in that process; it would help, I think, members affected by the social contract now to be able to deal with their employers directly over the bargaining table to reduce the hours of work that we have talked about through collective bargaining as well as the initiatives we're asking you to make legislatively and through regulations; and it would, I believe, in that process continue to develop more jobs.

We're asking you to let collective bargaining proceed so that those public sector unions affected by the social contract can begin the process of negotiating with their employers to protect any further layoffs taking place in the public sector. We do not want to see in the province of Ontario what we have seen in provinces like Alberta or New Brunswick or Newfoundland. There is no need for that, and we would ask the government members to consider that.

**Mr Gerry Phillips (Scarborough-Agincourt):** The first issue is fundamental to all of us, and that's employment. I see, looking at the report you refer to, the Ontario Economic Outlook, that Ontario still had around 84,000 fewer jobs in 1994 than it had in 1989, and this same book indicates that the rest of Canada has 240,000 more jobs. So Ontario is still down in 1994 from 1989, over that five-year period, by about 84,000 jobs and the rest of Canada is up about 240,000 jobs. Has the federation got a feeling of why that's happened, and what can be done about that?

**Mr Wilson:** I think we do. You recall, Mr Phillips—you were part of the debate that went on in this province at some length—that the previous government, headed by Mr Peterson, was in full support of opposition to the trade agreement unless a number of criteria were established. It is our estimation in our surveys that, depending on whose numbers you want to use, we have lost somewhere between 175,000 and 195,000 jobs directly as a root cause of the transfer of production facilities, the closure of production facilities and their moving south and then south again.

We all know in this room, I think, that Ontario was probably more adversely affected than was any other jurisdiction in this country by the trade agreement. I would suggest to you that that accounts for the fact that we took the bath, and it'll take us a long time to get out of that hole. And that wasn't the doing of either provincial government, the current one or the previous one, in that the trade agreement was not stopped.

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**Mr Phillips:** I appreciate that view. The other curious thing in the job numbers was that in 1994 we actually saw fewer jobs created, net incremental jobs, than we did in 1993, which surprised many of us, because the economy was growing very well in 1994. Actually, again according to the government statistics, in 1993 job growth was around 79,000 and in 1994 it was around 73,000. What would be the explanation for actually fewer jobs created?

**Mr Wilson:** I'm not sure. Do you have one?

**Mr Phillips:** I know the federation does a lot of good

research. I don't know whether Mr Schenk—maybe he knows the explanation for it.

**Mr Wilson:** It wouldn't be the first time Mr Schenk has an answer that I don't have.

**Mr Chris Schenk:** I don't know if I have the answer totally, but in every upturn there is always a period of time in which employers, not sure of what the market's going to do, hesitate to hire. They also have debt from the downturn, so you don't necessarily see hiring coming in an even pattern; it varies plant to plant, office to office, and industry to industry. I can only suspect that there was sufficient hiring in 1993 for a number of these firms such that they held off any more hiring in 1994. I can hope that they will hire further in 1995. I don't have any particular breakdown in comparison of the hiring patterns for the two years.

**Mr Phillips:** The numbers come out tomorrow for January, and my own judgement is that they'll be pretty good. I hope we're starting to see an acceleration, but I was disappointed in 1994 that there actually were fewer new jobs created than there were in 1993.

**Mr Ken Signoretti:** If I can make a point, Mr Phillips—it's just something we've talked about—if you look historically at what happens in terms of employment and unemployment, even in our postwar economy, you'll find that when you have a boom in the economy, the employment goes up, and then you have a recession and it goes down; and then when there's the next boom, it doesn't go up to the same level or higher. I don't think anybody really understands that, and I don't know why that phenomenon takes place, but I think it's something everybody collectively ought to look into: why these things happen. It is just a very interesting phenomenon. That may be part of the answer. I don't know.

**Mr David Johnson (Don Mills):** Thank you for your deputation this morning. I hadn't intended to mention this, but we were talking about exports; the issue of exports was raised. It's interesting that earlier this week the Conference Board of Canada was before us. They have export growth in Canada and in Ontario; in actual fact, the percentage increase has been phenomenal in exports from Ontario.

**Mr Wilson:** In certain sectors.

**Mr David Johnson:** Well, they're looking at the overall picture, and the overall picture has been phenomenal. It's been well ahead of the growth of the economy in Ontario and in Canada. I guess it's perhaps the large reason for the success of the economy over the last year or so.

What I really wanted to talk about: You mentioned concern for the vulnerable, and that's a concern I certainly have, not only today but into the future. You mentioned the elderly, for example; one could mention many other people who are going to need support. My concern is that, with interest consuming more and more of the provincial budget and of course more and more of the federal budget, but we're talking about the provincial budget here today—you indicated it's 17.5% of revenue; that's about double what it was four years ago, and it's growing. The economic growth, that you've indicated you

expect to be about 4.2%, could well be that level this year. But all the forecasts we've seen in the future take a dip, and some of the forecasts we've seen indicate that beyond the next year or so the kind of growth we're looking at is perhaps 2% for the rest of this decade, and the money won't be there.

With the debt continuing to escalate in the province of Ontario—the auditor kicked off the week by saying that the deficit in real terms is about \$10.5 billion this year. That's going to add to the debt and the interest payments are going to continue to climb, which is going to mean that there's going to be less and less money available for the services to the vulnerable, for education, for health etc. I would like you to speak to that. Unless we get serious about eliminating that deficit, the vulnerable will be the ones who are going to be hurt in the long run.

**Mr Wilson:** I don't think anyone opposes the elimination of the deficit, ourselves included. It's a question of, what is it you do to eliminate the deficit? The province of Ontario is no different from other provinces in that you have some difficulty because many of the major levers that determine that deficit are out of your control: They're in the hands of the federal government.

Our concern with the actions of the federal government is what I said earlier, that it's concentrating on the financial economy and not dealing with the real economy. You've seen instruments like the Bank of Canada, as an example, less and less become an instrument of government or the people in Canada and more and more an instrument that simply caters to the investment and the financial community.

To give you an example of what I'm talking about, when interest rates rise in the United States, American workers by and large are protected by long-term mortgages—25- and 30-year mortgages are still a fact of life at 9% in the United States—so they are insulated from the impact of interest rates going up. The difficulty we have is that the federal government in Canada then reacts to the investment community, as to who it is wants to attract investment dollars, so we must then track the United States a point or two above that. We have lost the ability we had up until the mid-1970s to be the masters of our own house.

This is why I thought the government's action in trying to create an Ontario savings bond issue made a heck of a lot of sense in trying to repatriate some of that debt so we could deal with it. If we did not have to deal with the question of foreign investors and their attraction to the Canadian dollar by higher interest rates, every time the American interest rates went up, so what? That's exactly what happened in this country prior to 1975.

**Mr David Johnson:** I would have to say we have a disagreement on that. The province of Ontario 10 years ago had a budget of \$28 billion. Today it has a budget of about \$56 billion. The control we have is that the spending has doubled in 10 years—

**Mr Wilson:** Of course it has.

**Mr David Johnson:** —well beyond the rate of inflation, well beyond population growth. The province of Ontario has the choice to reduce spending, with the



modest economic growth we will see over the next few years, to balance the budget through that sort of combination.

**Mr Wilson:** But to be fair, Mr Johnson, how could you expect otherwise when you had social assistance rates in this province tripling over what it was in the period you're talking about, where you've had unemployment rates going to record highs in this province? Again, a root cause of that was the shift of a lot of well-paid jobs from this province.

I know people personally who were workers in well-paid manufacturing jobs who lost their job because their employer went south and south again. These workers—and they didn't create that unemployment themselves—then found themselves exhausting an unemployment insurance program that was available to them, that has continued to shrink in terms of availability, in terms of eligibility, in terms of the level of unemployment, and then found themselves on welfare, a direct cost to this province. Now, surely to God you can't say that's because of the action of any provincial government in responding to that.

The action I understand you to be suggesting is to say, "Well, cut 'em off." We could do what Ralph Klein's doing—give them all a bus ticket to Alberta—but that isn't the solution. It sure isn't the solution for Ontario and it sure isn't the solution for Canada. I would hope that you would not want to support what Mr Klein is doing.

**Ms Julie Davis:** If I might, the numbers show that Ontario suffered 70% of all the job loss in the country, and at the same time, in the same two-year period, 1991 and 1992, our social assistance caseloads skyrocketed and our costs went up by 40%. It's no wonder we're facing the problems we're facing today, when you take a look at those two numbers: the job loss on the one hand and the increased cost on the other.

**Mr Wilson:** With regard to the level of the deficit, I happen to think the best guy to ask when you want something fixed is the guy who's doing the job, so I'll buy the Treasurer's numbers.

**Mrs Elinor Caplan (Orlolo):** You stand alone.

**Mr Wilson:** Good morning, Elinor.

1030

**Mr Norm Jamison (Norfolk):** It's a pleasure to have you here to listen to your presentation. I might add that the presentations we've been listening to have been rather varied. Everyone agrees there are some fiscal problems, but there are very different points of view on how to approach those problems in a way that would put the province on a course to rectifying that situation.

I'd like to make a comment that really agrees with something you've indicated, Julie; that is, that 70% of the job losses in this country occurred here in this province, quite simply because it's the manufacturing heartland of the country. We've seen an upturn in the economy that really isn't providing the number of jobs that normal upturns in economic performance provide—although jobs are being created: One out of two jobs being created in Canada is basically being created here in Ontario.

We had someone come in yesterday representing the Automotive Parts Manufacturers' Association. Elizabeth Mills, I believe her name was, indicated that there wasn't really a great recovery in auto. I have real problems with that. I know that, coming from the CAW and prior to that the UAW, it's of interest to you. There has been \$5.5 billion worth of investment in basic auto manufacturing in this province, and when Ford and Chrysler and Toyota and GM are investing that type of money, I would think that would spell a good future here for those auto parts manufacturers. They indicated, of course, that there were some things like Bill 40 that were still causing them great concern. I don't know where they place the facts; the facts, I think, speak differently about that bill.

I just wanted your opinion on where the economic recovery is centred in this province.

**Mr Wilson:** Bill 40's been law for over a year in this province, and I don't know of an auto parts manufacturer that's been unable to operate because of it—not one anywhere in the province. And \$5.5 billion in the auto sector is a substantial investment, but it's also interesting to note—our numbers I believe are correct—that in the period 1992-93, \$80 billion worth of new investment came into the province of Ontario.

The auto parts sectoral council measurement of the degree of their success is an initiative that's very important in terms of the manner in which they've been able to deal with the application of technology, how they've been able to deal with information sharing, all those things that help auto parts manufacturers, as a group within a sector, deal with the economy. I don't know how they separate themselves from the health of the auto industry and the auto assemblers in this province. The Bill 40 argument is a bogus argument. It would be interesting to see how one calculates investment that's not been made here, which seems to be the argument that's made. If that's true, let's see the numbers: Take us into the boardroom, tell us what your investment plans were and why you had to scrap them. Of course, employers are never going to share that information.

To suggest somehow that the decision about whether or not investment is made in Ontario is based on labour law is absolutely nuts. It's made in Ontario because there are well-trained workers, there's an infrastructure to support their operations, there is stability. All of those things are factors, are indicators, that employers, in my experience of more than 30 years in the labour movement, base investment decisions upon, not necessarily on a piece of labour law. How else would you explain that the Chrysler corporation has more operations and investment in Canada now than it has in the United States?

**The Chair:** Unfortunately, our time has expired. I want to thank the Ontario Federation of Labour for its presentation before the committee this morning.

ONTARIO PUBLIC SCHOOL TEACHERS' FEDERATION

**The Chair:** The next presentation is by the Ontario Public School Teachers' Federation.

**Mr Reg Ferland:** Good morning, Chair, committee members. I'll introduce the delegation, and I will then proceed with our presentation to you.

Our general secretary is David Lennox; the first vice-president of our federation is Jeff Holmes; our legislative observer is Vivian McCaffrey. I'm Reg Ferland, president of the Ontario Public School Teachers' Federation.

The Ontario Public School Teachers' Federation represents 36,000 teachers, occasional teachers and educational support personnel who work in the public elementary schools across this province. The federation welcomes this opportunity to present an update on our views regarding government spending priorities, the effective use of tax dollars and recent measures taken by the government to reduce public expenditure.

There is broad recognition that the funding of elementary and secondary education in the province requires major reform. Education finance has been the subject of intense and prolonged scrutiny. A decade ago, the Macdonald commission studied educational funding. More recently, the Fair Tax Commission produced a report, back in 1993, and, very recently, the ministry committee, which also endeavoured to study educational funding, was not able to or did not publicly release any of its recommendations. Most recently, the Royal Commission on Learning has proffered a number of recommendations for restructuring the funding of Ontario schools.

The federation has long advocated three key changes to school financing, and they are: that the major share of education costs be paid from provincial revenues rather than property tax; that per-pupil expenditure grants more accurately reflect the real cost of providing basic educational services; and that a greater investment be made at the elementary level to facilitate early identification and intervention programs for young children. We were therefore pleased that the Royal Commission on Learning identified early childhood education as one of the major thrusts in its vision for reforming education.

The Royal Commission on Learning will indeed spark fundamental changes to the educational system and how it is funded. However, these changes will not happen overnight. In the interim, elementary and secondary schools must receive sufficient funding in order to provide the range of educational services mandated by the province and expected by the public.

Throughout the recession, the federation has argued against the option of cutting public services and has advocated instead the reform of the personal income tax scheme and the closing of loopholes, a focus on job creation, and allowing the deficit ceiling to rise in the short term. The long-term health of the province depends on the existence of stable and viable public services. It does not make any sense to cut public services and thereby contribute to the unemployment problem.

The Minister of Finance and his government are taking great effort to spread the word about the beginnings of an economic recovery in this province. While we agree that a period of economic growth is the most appropriate time to tackle public debt, we are urging the government not to focus solely on debt reduction but to ease up on its stringent expenditure-cutting into the public sector.

The federation understands that much of the province's ability to deal with its own deficit and to support public

services depends on the transfers it receives from the federal government. We are deeply concerned by the current speculation that the federal government is planning to drastically reduce the level of services which form our national safety net and to further slash transfers to the provinces. We support the Ontario government's attempt to fight this federal policy direction.

The well-educated workforce in Ontario is commonly touted by the government as one of the reasons the province is in a good position to ride the next wave of economic growth. This sentiment is clearly stated in the Ministry of Finance's pre-budget document, Ontario Economic Outlook. It will amount to lip-service to the value of education if financial support for elementary and secondary schools continues to decline. At the elementary level, additional resources are required to support smaller class sizes, specialized staffing and educational support services which facilitate early identification of students' learning needs and emotional problems. Early identification and intervention are key to reducing the need for more costly remedial programs at the secondary level and to improving the student retention rate.

#### 1040

Page 4 of our brief refers to the research in support of investing in education. Both the Premier's Council report *Yours, Mine and Ours: Ontario's Children and Youth* and the report of the Royal Commission on Learning draw on an extensive review of the research literature which supports this position.

There is public support for making education funding a government spending priority. The 1994 public opinion survey on education issues conducted by the Ontario Institute for Studies in Education reports that, although the public accepts decreased public spending in general, 54% of the Ontario public "support increased funding for education and over 60% support increased funding for job retraining and adult literacy programs." Furthermore, in spite of the current economic climate and the financial pressures created by increased taxes, the OISE study reports that a majority of the public, 51% to be precise, are willing to pay higher taxes for education.

With less-than-inflation transfer payments, and then the introduction of the social contract and the expenditure control program, school boards are drastically paring their budgets and cutting programs and services. At the same time, we are currently witnessing a flurry of announcements regarding new education initiatives, including expanded student testing, a new common curriculum, the establishment of school councils and the extension of formal schooling to include three-year-olds. We anxiously await to see what the provincial budget holds to fund these projects.

The social contract is also creating extreme inequities among teachers across the province. Teachers are paid according to their qualifications and experience. Almost all teacher collective agreements have an apprenticeship grid, most of them taking 10 steps to reach the maximum level of salary after 10 years of experience. The social contract has frozen teachers on grid, which means that less experienced teachers will automatically lose salary credits for three years of teaching. Over the life of



their career these teachers, on average, will have lost the equivalent of at least one year's salary. They are therefore paying a disproportionate amount towards the social contract saving targets.

A small number of school boards and their teachers have negotiated experience increments for teachers moving up the salary grid in exchange for other budget reductions. As a result, teachers with identical teaching experience and qualifications are being compensated differently. All teachers are experiencing the effects of frozen salaries, unpaid days and cuts to staffing and programs. It is totally unjustifiable to expect our younger teachers to shoulder a disproportionate share of the burden of cost cutting.

If I can go back in our brief, having made my statement on the social contract, to page 6, it addresses the impact of the social contract not from a teacher point of view but from an organizational point of view in schools. School board programs have been cut at the elementary level.

These cuts include the delay of implementing junior kindergarten programs, the reduction or elimination of English-as-a-second-language, French immersion, music, art, computer assistance, design and technology and family studies programs. The cuts also include special education programs and the budgets are being reduced for noonhour supervision, occasional teacher coverage, teacher professional development, secretarial and maintenance services as well as equipment replacement and repairs.

As indicated on page 7, some school board restructuring initiatives are positive and don't adversely affect the quality of educational services. Examples include joint transportation, purchasing, warehousing, as well as the collaboration on waste management, computer operation, courier services, payroll, printing and the investment in energy-efficient means.

A few school boards have also expanded their joint ventures to include other public agencies such as municipalities, hospitals and community colleges. Some restructuring initiatives do undermine the quality of educational services. These, as outlined on pages 8 and 9, include the deprofessionalization of education services, for example, the replacement of qualified teacher-librarians by library technicians; the reduction of educational support personnel, including speech and language teachers, social workers, psychologists and diagnosticians who provide key support services to children with special needs and to their families; as well, the last item, the contracting out of custodial and maintenance services.

OPSTF is calling upon the government to introduce legislation in order to restore the rights of young teachers to their rightful place on the grid. I made the argument earlier that these teachers are paying a disproportionate amount over the course of their teaching careers. This inequity, this injustice cannot be tolerated and we are requesting that the government restore the teachers on the grid.

OPSTF is disappointed that this government has not fulfilled its commitment to reform the funding of child care services. We urge the government to take the

opportunity to access federal strategic initiatives funding to support the overdue child care reform proposals.

In conclusion, we are urging the government to balance the pressures to pay down the public debt with the need to sustain viable public services. Implementation of the social contract and the expenditure control plan is not simply a matter of figures on a ledger. Cuts to public services affect the everyday lives of Ontarians and, in the case of education, shortchanging our schools today will have long-term social costs in the future.

Chair and members, thank you for listening. We are open to questions from the members of the panel.

**Mr Gary Carr (Oakville South):** Thank you very much for your presentation. I enjoyed it very much. I want to talk about the social contract. Reg, as you may have read in the paper, the Treasurer sat in your very seat on Monday and said when the social contract ends the money is not coming back in the system. As a result, your members are faced with the dilemma of what happens when the social contract ends.

The province isn't putting any more money in, and the only alternative is to increase property taxes. I can't speak for other areas, but I don't think it will happen in Oakville because we've got seniors who will literally probably be out of their homes if property taxes go up any more. You alluded to that and how you wanted to see the province take over. So there isn't any more room in property tax increases.

I'd like to ask you an open-ended question. Knowing that the Minister of Finance has said there isn't the money coming back in the system, and when it ends your members are going to be faced with a very difficult situation of potentially maybe having to continue on with their wages frozen, what do you see happening at the end of the social contract and what are your members expecting when the social contract ends?

1050

**Mr Ferland:** Thank you for the opportunity to further discuss the social contract and the increment issue. We are aware that the government is not going to reapportion dollars back to that particular area in collective bargaining, if you will, or back to school boards. Our dilemma is one that has been created by the advent of the social contract and cannot be solved by the teachers themselves and by the school boards themselves. It has to be a team effort that will address this inequity. I am not convinced that it was a target or an aim of the social contract to hit a portion of the teaching population more so than others. This was a result of that particular avenue chosen.

We realize that there are no new moneys and that taxes are going to be very difficult to raise at this particular point in time. We are also taxpayers and welcome that particular comment.

The difficulty is that you're going to have teachers seeking to move to boards that have restored totally or partially the increments to young teachers. You're going to have boards that will be seeking teachers and will not have the attractiveness within their collective agreement to attract new teachers. This will create chaos in the future if allowed to continue.

There's also the pay equity, if you will, of a member, a teacher, teaching on one side of the hallway making more money with the same number of years of experience and qualifications compared to the member on the other side of the hall who may be earning as much as \$8,000, \$9,000 less per year. We pride ourselves in this province on having built equity throughout our working world and this would now add one that wasn't even anticipated.

**Mr Carr:** I just had a couple of quick ones because I did want to get this answer on what came out in the commission. That's some of the recommendations and three in particular, if you could answer whether you and your membership are in favour of the standardized tests, the parent council and the core curriculum, because we understand the government's going to move in this area. Will you be supporting the government on those three initiatives, and maybe you could tell us the ones that you disagree with, if there are any.

**Mr Ferland:** I'd like to invite the general secretary to use his teacher voice this morning.

**Mr David Lennox:** It's been a while since I've been there. Let me try to give you the answer specifically to your question.

With regard to standardized tests, we are not negative about standardized tests as long as they are used to improve the instruction in the classroom. If they're used for an improper reason, in any type of comparison or evaluation of a school to another school, then we are strongly in opposition to that.

With regard to school councils, we're quite in support of school councils. We have two concerns with regard to school councils. One is with regard to the involvement of school councils in the performance appraisal of teachers. We think the school board is the employer, the principal is assigned the area of responsibility, and that is where the responsibility is for the evaluation of teachers.

The situation that you've got—and we asked the Ontario Parent Council when we were down to speak to it—where did they think they would find the insurance to protect the parents in the lawsuits once the parents get involved in the evaluation, because they're not protected anywhere? In fact, one parent down there suggested we send out surveys with the students to the parents out in the community to get a survey answer of how good the teacher is doing. Sounds like a popularity contest to me, so we're dead against the involvement in them in that aspect of it.

Your third area, core curriculum, I don't think we've ever left a core curriculum. We support a core curriculum. We support the striving for excellence. The problem that we've got is that, as we continue to cut back on the support services, we become quite middle of the road. For those students who are gifted and need to be challenged on one side or need support with learning difficulties, we're going to find that the core curriculum is going to have control and not allow us to encompass all the students and meet their needs.

**Mr Carr:** Good luck to all of you.

**Mr Gary Malkowski (York East):** Thank you for

your presentation. You were talking about federal transfer payments and, as you know, the Liberals and the PC governments, when in power in Ottawa, haven't given us a fair share in relation to the federal transfer payments and we've continued to experience discrimination there. Now we're looking at an upcoming federal Liberal budget and we're concerned about what the decisions on transfer payments will be. We want to maintain the services and preserve the services, but I'm wondering what your comments are if the federal government changes the transfer payments as we fear. What would your comments be as to the effect of that?

My second point: Do you have any specific recommendations? Once the federal Liberal budget cuts are announced, what would you advise us to do? How can we try and maintain a level of funding and services without hurting the schools and without hurting the quality of services?

**Mr Jeff Holmes:** The great conundrum that we face in education and in all walks of life is the gradual downloading of cost. The federal government turns around and passes it to the province, the province turns around and passes it to the local taxpayer and, finally, the local taxpayer says, "Excuse me, there is no more."

I think the expenditure control that goes on is a necessary part of what's happening. None of us, I don't think, sitting at the table here would dispute the fact that either the pot of money is shrinking or the scoops are getting bigger as they dip into it. It is the most difficult problem for any Minister of Finance to deal with. We see evidence across the country at the current moment of all the tax revolt meetings that are taking place and the endless acrimony that is going on as people register their discontent.

Somehow in this process, we have to find a way, we as the taxpayers of the province or we as the service groups of the province, education included, or we as the government of the province, to balance all the forces and come out at the end with something that everyone can live with.

It's essentially a win-win negotiation, or it should be a win-win negotiation, that nobody wins totally but nobody loses, and the perception at the moment is that there are segments that are losing more than others and therefore have a greater level of discontent.

If I could sit here and tell you the answer to how to solve the whole thing, I would perhaps be Treasurer of Ontario, but I'm not, so I just encourage some sober thought on the process.

**Mr Ferland:** I might share a supplement just very briefly, the educational system in Ontario cannot take further cuts and maintain its viability, its credibility as a system that delivers excellence. If we are going to cut, then we're going to have to release and lessen our expectations of the educational system.

As far as maintaining what we have on a reduced income, if you will, I go back to my earlier comments in my presentation. The public at large and a great majority of the public in many of the polls indicate that they're willing to pay for education. I realize that's in the form



of taxes. They're not willing to pay for taxes or have increased taxes, but they do indicate that they're willing to pay for education. I don't know how one brings that about without doing it in taxes. There is no other way. But the public opinion polls clearly indicate that the maintenance and the betterment of education is a target that this province must have.

1100

**Mr Phillips:** There's a comment that we often get, and that is that we have shifted the spending from the classroom to the non-classroom, as a percentage, fairly substantially in education and that there may be some significant opportunities for efficiencies or savings or cost cutting outside the classroom. I wonder if your organization has looked at that and has any advice for us on whether there are substantial opportunities there.

**Mr Ferland:** I'm going to question the definition of the word "substantial." If it's enough to save the system without an influx of dollars, I don't believe that would be met. We've highlighted in the report that we do have school boards that have undergone the research and even the implementation of cost saving measures within their own domain and sometimes in cooperation with others. These types of efficiencies will in the long run generate cost saving measures. In the short term, however, they do not, because they are not major costs, as well as we should realize that the major cost of education is to pay the teachers to deliver education. The rest of the dollars is a smaller amount that you have to play with.

The releasing of certain dollars that were labelled to transportation will in the long term generate some substantial savings. We encourage and we cooperate fully with school boards to seek out areas of cost reduction in an operative sense, so that dollars can be put back into the classroom. We welcome that challenge and open negotiations with any school board—not negotiations from the collective bargaining point of view, but negotiating the areas where cost saving measures can be found. We welcome that opportunity and we'll work with school boards.

**Mr Lennox:** If I can make a further comment, I want to be very specific to Mr Phillips's question here. We've looked at studies recently, the Windsor-Essex study, for example, to amalgamate the two school boards and the result of that was it was not going to be cost savings. We looked at the Ottawa-Carleton study and it again reported that it was not going to become cost saving or financially more efficient. Even in the royal commission that was pointed out.

The situation is that we can support, for example, some amalgamation of school boards, if they're right, in the province of Ontario; there can be some examples of that. The problem that you've got is looking at the number of dollars spent outside of the classroom, when you're looking at 80% being spent in teaching, directly at the classroom level, and then you have to take a look at administration, maintenance, custodial, that aspect of it. Yes, there could be some type of good analysis done on that and I think we have to stop the attitude of, "Yes, we're prepared to save, but not in our own backyards." So yes, we're going to have to take a look at that and

redirect money right to that classroom and it's going to take the will of senior administrators and trustees to do that.

#### CANADIAN MANUFACTURERS' ASSOCIATION

**The Chair:** The next presentation this morning is by the Canadian Manufacturers' Association.

**Mr Eric Owen:** Good morning, Mr Chairman, ladies and gentlemen. You'll have to excuse me; this weather's got a bit of a bug in my throat and I'm suffering a little bit. I have with me today Mr Jayson Myers, who is the chief economist of the Canadian Manufacturers' Association. I'm Eric Owen. I'm director of taxation and financial issues.

I don't want to go into the rigmarole of what the CMA is, but the CMA has been around for more than 125 years. It is an umbrella organization of most, if not all, of the manufacturing community. Our members deliver approximately 75% of the GDP in Canada, so I think that that's sufficient.

I'd like Mr Myers to give the first overview of the economic scenario as the Canadian manufacturers have reviewed it, please.

**Mr Jayson Myers:** From the perspective of manufacturers in Ontario, I think they're optimistic, they're cautious and there's a lot of concern. They're optimistic because 1994 was a tremendous year for manufacturing in this province. Production increased by 7%, one of the strongest rates of growth in 10 years. Shipments were up by about 11%. After-tax profits rose by 65%. As a result of that, 16,000 new jobs were created in this province in manufacturing, and capital investment rose by 26%.

Any way you look at it, 1994 was a good year for manufacturing in Ontario, and manufacturers are optimistic about the spinoff effects of that growth, the fact that the better profit margins that they've seen will lead to stronger employment and capital investment prospects in 1995.

But I have to say at the same time there's a lot of concern and there's a lot of caution. Even given that strong performance in 1994, level of production remains below what it was in 1989. We are about 188,000 jobs short of where we were in 1989. Capital spending is only 4.4% higher than where we were in 1989. Investment in plant facilities is 36% lower than where we were in 1989.

The economy as a whole in Ontario has grown only by 3.8%, and if you look at real personal disposable income, the spending power of Ontario consumers, that is lower than it was in 1989. There's a good reason why people don't think that we're into recovery, and that's because they don't have as much money today to spend as they did in 1989. There's a lot of caution, a lot of concern about the future prospects of our industry and the future prospects of the Ontario economy.

I have to tell you that the growth that has occurred over the past year has been almost exclusively export-driven. Manufacturers are exporting 55% of total production in this province outside of this country, more outside of this province. The domestic market, the Canadian market for Ontario manufacturers, accounts for less in terms of sales than the American market does today.

If you take a look at the American market and the effect of higher interest rates on that economy, we're going to see a slowdown in the rate of growth. I hope we don't see a recession this coming year, but I can tell you there are a lot of companies that are very fearful that that's exactly what they're going to be looking at, particularly in the automotive industry and the suppliers into that industry, because that's where the growth has been coming from.

We're cautious and we're concerned about the effect that the depreciation of the Canadian dollar has on costs of imported materials and technologies, because that's what it takes to grow today, and those costs are going up all the time. The high debt levels that consumers and businesses and particularly governments have in this province also are reason for concern in the face of high interest rates.

I can tell you many companies today are still facing tremendous cost pressures. That 65% increase in corporate profits only shows how low the profit situation was in this province, because after-tax corporate profits remain 19% lower today than where they were in 1989. It's very, very difficult to make the money today to reinvest in plant, equipment, expansion and growth.

On average in Ontario, manufacturers are spending seven hours and 45 minutes out of every eight-hour production shift simply to break even, simply to cover operating cost, 15 minutes to make money, and they'll spend over five minutes of the remaining 15 minutes to pay income taxes.

That leaves slightly less than 10 minutes out of every eight-hour shift to make the money that's required today to invest in technology, in capital, in training, in research, development, new product design and in reorganization, and if we aren't making that investment, we're not going to grow in the future.

1110

We're very concerned about the cost increases that we see coming in and that will be taking place over the next year. Inflation will be up this year. Companies will be passing on more in terms of price increases, but companies will also be seeing higher wage increases. In fact, from January 1989 to the end of 1994, although the average selling price of a manufactured product in this province only rose by 8% over that entire period, wage rates have increased by 24% and they've just kept pace with inflation that's been driven up by higher taxes and higher regulated prices. Payroll taxes and supplementary labour benefits on a per capita basis have risen in this province by 75% over the past five years.

There is a good reason why we've lost 188,000 jobs in manufacturing, and a large part of it comes down to those cost pressures. The rule of thumb for business is, if your unit costs don't keep pace with your prices, you're not going to be in business very long. There are very few variable costs that companies can cut and unfortunately labour has taken the brunt of many of those cuts. I don't see the profit situation, I don't see the cost pressures being relieved in this province for some time and I don't think we'll be getting the jobs back in manufacturing.

The Ontario economy, I think, can be expected to slow down considerably in 1995. We're looking at a growth rate of about 3% in real terms, and yet the Ministry of Finance is predicting a growth rate over the next three years that averages 4.4%. I think this is wishful thinking and I think that some of the problems that we've faced over the last four years have come from overly optimistic growth forecasts that tend to create a situation where governments are overestimating revenues and underestimating expenditures. That's one of the problems that's led to the tremendous deficit situation and pile-up in debt that we've seen in this province over the last four to five years.

Manufacturers are also seriously concerned about the erosion of net new investment in this province. In 1989, 10% of GDP was being reinvested in this province in terms of new fixed capital. That's after depreciation, that's after you take into consideration the capital consumption allowance that represents replacement capital. Some 10% of GDP was being reinvested in the province; today less than 3% of GDP is being invested and the trend is downwards.

I know a lot of companies with cash on hand that will not be making investments in this province over the coming year. They're looking elsewhere: at other provinces, at states in the United States. This is not a good place to invest for many Canadian companies and that has to change.

I think it's appropriate at the end of the government's mandate, as you're looking at a budget that will set the stage for where we go in the next mandate, whatever party is in power, to look back at the performance, both fiscal and economic, of the last five years. I have to tell you, the picture is not very encouraging.

Operating expenditures have increased by 12%. Interest on the provincial debt has risen by 110%. Provincial revenues have increased by 5%. The provincial deficit has risen from \$3 billion in 1990 to \$8.5 billion or more today. I wish it were \$8.5 billion; I wish we knew. A total of \$41.3 billion has been added to the net provincial debt. The outstanding provincial purpose debt has risen by 114%. The contingent liabilities of the provincial government have risen by 40%, and Ontario Hydro costs have risen by 33%.

At the same time, Ontario's credit rating has declined. The Ontario economy has risen in total by only 2%. Real personal disposable income has fallen. Residential investment has declined by 19%. Non-residential construction activity has fallen by 60%. Real domestic demand in the province has increased by only 2.2%. Employment has fallen by 66,000 jobs, and there are 121,000 fewer people working in manufacturing from 1990. Unemployment has risen from 6.3% to 9.6% of the labour force.

Quite frankly, ladies and gentlemen, we can't continue to see the fiscal and economic performance continue like this over the period of the next government's mandate. We're facing a serious fiscal and economic crisis in this province and we have to wake up to that fact. We have to put in place today a budget that will address those concerns, the crisis that we face, and we have to look



again at the fiscal priorities of this province.

Again, we tell the government that you have to balance the provincial deficit, balance the budget, within three years at least and move into a surplus to begin to reduce the provincial debt.

You've got to understand that you have to create wealth in this province to expand the revenue base before you can collect more revenue. You have to create wealth before you can redistribute it, and you have to understand that it's customers that create jobs; it's not government that creates jobs. In fact it's not business that creates jobs either. The jobs will come only if business can afford to hire people.

You have to understand that taxes are ultimately borne by people, not by corporations, and you have to ask whether corporate taxes are the fairest way to tax. I don't think they are. I think if you look out the window today, if you can find a manufacturer close by, ask them, ask the people who have lost their jobs as a result of higher taxes and higher regulatory costs, ask the companies that have moved out of Toronto and that have moved out of Ontario as a result of higher taxes, and they'll tell you that it's not a very fair way to tax. They'll also, I think, tell you that economists aren't perhaps the best people to tell you what's fair in the tax system.

We've suggested at the back of our submission a number of changes that you can make to restructure government. I think this is extremely important. It's time that government decides how much money is to be spent and then to re-engineer programs and to reinvest the remaining money in programs that make sense—in infrastructure, in health, in education—that we all require in this province, but also in areas of government activity where there is a real economic payback, and not in administrative overhead. It's important to reduce that.

I'm going to ask Mr Owen to address some particular tax issues that I think will help to set us on the way to an improved tax situation in this province, but let me conclude by stating one thing: The objective of fiscal policy and the objective of all government policy in this province, and our overriding interest, is to make Ontario the best location in the world for companies to come into, locate, invest, export from, employ and grow. I can tell you that the concerns today from the manufacturing community about the fiscal and economic situation in this province are not leading us to the type of business environment that is conducive to that.

**Mr Owen:** I was looking back last evening at some clippings of some of the reports of the budget that have come out over the years, and I came across one in 1991 where I was quoted, and I believe that the quote I said at that time is even more paramount today. I was quoted at that time as saying the government cannot spend itself rich, and I think the figures Mr Myers has just quoted indicate that it would have been better had they taken some notice of that.

As Mr Myers has said, the government must cut spending, but in our opinion as well it must also cut taxes. Tax increases are not the solution or even part of the answer to the government's fiscal problems. Any increase in the cost of government borne by business will

only lead, in our opinion, to further losses in investment, employment and in government revenues, and every Ontarian will eventually pay.

A number of issues are of continuing concern to the Canadian Manufacturers' Association. While the harmonization of the federal GST and the Ontario retail sales tax is our top priority, we are concerned about the tax competitiveness of Ontario manufacturers when measured against manufacturers located in our major trading partner, the United States.

I see all kinds of studies pointing out that Ontario manufacturers are indeed competitive and that rates are comparable to our major trading partner's. However, what they're looking at all the time is nominal rates and not effective rates.

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It must be understood that the importance of taxes will vary from company to company depending on where the most likely and feasible alternative sources of supply are located. For a multinational corporation, tax benefits may need to be more competitive than for any other corporation, especially where people outside Ontario may be making key sourcing decisions.

We have recently undertaken some studies regarding multinational corporations and why they locate where they do locate. We have found that local management tends to look at local issues such as payroll taxes and capital taxes and that type of thing. However, the multinational corporations, where the sourcing decisions and the actual location decisions are being made, look every time at corporate income taxes—no more, no less.

We have looked at the corporate minimum tax, which was recently introduced, and we again strongly recommend the corporate minimum tax be discontinued.

The capital tax is also a major cost for manufacturers operating in Ontario. We are asking for the government to consider making this creditable against corporate income taxes. I've recently looked to see if I could actually find how much capital tax was being brought into the provincial coffers from the capital tax and I'm not able to find an exact amount. We are, however, looking at other ideas coming forward.

Capital taxes at one time applied to all small corporations, and it was decided that the \$50 would not be exigible on small corporations and it was actually removed. However, we are now seeing another \$50 registration fee. It may sound peanuts to some people, \$50, but if any corporation has two, three or 10 small corporations, you multiply the \$50 by the number of corporations and it is something they do have to consider.

Looking at another issue that was repealed, the current cost adjustment, we again recommend that this be reintroduced at the rate of 30%, as it was when it was repealed. We find that Ontario did have a very added advantage over capital placement in the United States of about 2.5%. Right now, with the repeal of the Ontario current cost adjustment, that is reversed and the placement of capital into the United States has an added advantage of about 1.5%.

The R&D superallowance is something that we have

always applauded. We recommend that this be continued because we certainly need R&D in Canada. However, the complication of the calculation of the superallowance is causing problems, and what we're recommending is a revenue-neutral adjustment to indeed simplify the calculation and make it to a single-rate, non-incremental allowance.

Our most urgent requirement, however, is one I've left to the last, and it's the harmonizing of the consumption taxes between the federal government and the provinces, Ontario being a rather large player in that scenario. Consumption taxes currently have an important and meaningful role to play in both the federal and provincial fiscal systems.

It would be wrong to say that corporate taxes should take over completely from consumption taxes and it would not, in our opinion, help. The consumption taxes are usually designed to provide a stable source of revenue and are an effective means of influencing consumption and resource utilization as is determined by the various governments involved.

We believe, however, that the harmonization will result in substantial savings in tax collection and administration costs and would simplify the tax compliance for business, consumers and not the least of which would be the government because, if, for example, we're looking at the underground economy, we would have perhaps more auditors out there who would be able to chase the underground economy and bring to light that which rightfully should be paid.

Other major economic benefits, as we see, is that it would be fair to the consumers. It would allow, in our opinion, significant federal-provincial sales tax reductions. It would be simpler for business. It reduces compliance costs and for the small businesses, who are complaining all the time about compliance costs, it would, in our opinion, facilitate simplification.

As I've already said, common administration reduces administration overlap and duplication. We also have looked at it from the point of view of, if it goes the way of the GST whereby there is no actual tax applicable on business and it's reclaimed through an input tax credit, we believe that it increases international competitiveness of Canadian businesses.

In our submission, we have outlined basic principles and I don't want to go through them completely, but we believe it should be revenue-neutral; it should apply to all goods and services. That may surprise you. It should be a single-rate, harmonized tax with a single base. It should be the responsibility of a newly mandated single administration and collection agency.

We believe that this would be, together with some other things that we have said, the ideal tax. However, we do recognize that in evaluating ideal principles, political considerations do at times come into play and to implement a new sales tax without some exemptions might not be paramount in the eyes of a number of people.

We look at a new tax with a complete input tax credit claim mechanism. However, we are aware that this perhaps will not fly and we're seeing, as they call them—

it started off with the 9%, the 10%, now we're looking at the 11% and 12% solutions. What we're looking at in the harmonized tax of an 11% or a 12% harmonized solution would be singularly, a federal share; the rate for the federal government would drop from 7% to 4%. That would allow the difference between the 11% or 12% to be returned to the province.

The other interesting proposals that are being put on the table are that, with the 11% or 12% proposals, there is what they call a time-lag mechanism where they would only return a proportion of the input tax credit claims to business. It would be in the region of 97% of the total claim in the first year, 98%, 99% and, in the fourth year, going up to 100%.

In discussions with the federal and provincial finance departments, the idea of this clawback of ITC claims is being discussed to convince the provinces not to introduce provincial personal income surtaxes and also to show a business is making a sacrifice in containing the deficit. We do indeed accept that.

In terms of dollars, this could be the 3-2-1 percentage reduction over three years. Right now, we're seeing that there is in Canada approximately \$18.84 billion. Of that amount, \$6.6 billion is Ontario's share, as paid by business. In the first year, with a reclaim, we see that the \$2 billion would diminish by the reclaim on the three percentage points of about \$840 million, so business is indeed prepared to accept that.

I'll close with suggesting that this is the closest the federal and provincial governments have come to integrating the sales taxes since 1960, and, if rejected, this window of opportunity may not be seen again for a considerable time and federal-provincial harmonization, in our opinion, would be just another dream.

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**The Chair:** Thank you very much. I let the committee members know there is about a minute per caucus for a comment. I suggest it's hardly time to ask a question and get an answer. However, I'll cut everyone off when we've used up our three and a half minutes.

**Mr Kimble Sutherland (Oxford):** Just on the economic forecast, the 3% for this year is one of the lower forecasts that we've heard here. I understand there are some differences on the out years, but for this year that appears to be below. The Ministry of Finance does use primarily consensus of private sector forecasts in terms of determining its own, so it doesn't just come up with its own forecasts.

I appreciate your comments about harmonization of the sales tax. I'm sure you're aware of Ontario's proposal to the federal government to try and harmonize that in a revenue-neutral fashion. In terms of picking up on that and reducing the costs, we have initiated the Clearing the Path initiative which right now is only in terms of registration. But certainly the hope in the upcoming years of course is unified reporting, and single business registration numbers will try and cut down on some of that paperwork.

**Mr Myers:** Could I just respond? One thing on the economic forecast, it is low. The best lagging indicator of



economic activity is the consensus of private economic forecasts. I hope that the Ministry of Finance takes a very low level forecast to actually do its budgeting by, because it's been burned in the past by overly optimistic forecasts.

**Mr Sutherland:** Some of the forecasters have come back and told us, "Yes, we were off base too."

**Mr Monte Kwinter (Wilson Heights):** I want to talk to that exact same point. When the Treasurer was here, and we only get a couple of minutes to really comment, I made that point, that historically the government and its economic forecasters have always been overly optimistic. They've always inflated the revenues and deflated the expenditures, and in every single case they've been wrong. They've been wrong five times out of five. I was just curious to hear your rationale for saying what I actually asked the Treasurer about, and your comments would be welcome.

**Mr Myers:** It's a serious problem that we've been looking at. The outlook for economic growth could be flat-lined from 1980 to where it is right now. It has varied between about 3.5% to 5% every year. I guess it comes down to it's difficult for people who are in government doing projections to ever forecast a recession, but the reality of the economic situation is that business operates in cycles and a turndown in economic activity has to be accounted for, especially when we're budgeting in such a tight fiscal situation like this.

Just go out today and ask any business doing business in the United States what they're looking at and they'll tell you they're looking at orders coming down right now as a result of higher interest rates, and the Ontario economy domestically remains very, very weak indeed. The consumer spending we're seeing out there is mainly taken out of saving or being done on credit. Saving is at a 40-year low in this province and credit is one of the reasons why high interest rates are going to have a tremendous impact on consumer spending.

**Mr David Johnson:** A very powerful message you've delivered here today, one with which I'm sure you know we agree 100%. Looking at your priorities of balancing the budget within three years, making Ontario more competitive for business by reducing the tax burden and aiming at wealth creation, these are certainly objectives that we share.

Our position is that the tax rate in Ontario is too high. We're proposing to reduce the personal income tax, payroll taxes. You've indicated that Ontario is not viewed as being a good place to invest. We share that concern. Labour legislation, for example, I think you would agree, is one reason for that, as well as high taxation. That's another objective of ours, to repeal Bill 40.

We think that the balancing of the budget cannot be achieved simply by relying on economic growth, that expenditures have to be reduced in the province of Ontario. I see you're nodding your head in agreement with that. You may not have an opportunity to respond, but—

**The Chair:** Your time has expired.

**Mr David Johnson:** —our economic forecast is the same as yours at 3%. We think that's realistic.

#### MOTOR VEHICLE MANUFACTURERS' ASSOCIATION

**The Chair:** The next presentation this morning is by the Motor Vehicle Manufacturers' Association. There are a number of people who will be entertaining this presentation. Whenever you're comfortable, please proceed.

**Mr David Adams:** The seat is still hot. I'd like to thank you for the opportunity to appear before the committee today. My name is David Adams. I'm the director of policy development for the Motor Vehicle Manufacturers' Association. Perhaps rather than introducing the individuals, I'll allow them to introduce themselves, and we'll make some introductory comments and then get into the gist of our presentation.

**Mr David Penney:** My name is David Penney. I'm director of the tax department of General Motors.

**Mr Bob Murray:** My name is Bob Murray. I'm the senior tax counsel of General Motors.

**Mr Jack Holman:** My name is Jack Holman. I'm supervisor of commodity taxation and trade of Ford Motor Co of Canada.

**Mr Aldo Dibiase:** I'm Aldo Dibiase. I'm a commodity tax specialist at Chrysler Canada.

**Mr Adams:** As I said, the MVMA certainly appreciates the opportunity to appear before the committee today. We view this as another and a valuable consultation mechanism in the pre-budget consultation process. We would again like to extend our thanks to you.

I think you'll recall that last year we presented a rather comprehensive and detailed economic overview with commentary on a number of tax changes that could be implemented to the benefit of industry in general and to the benefit of the automotive industry specifically.

In view of the old adage that less is more and in view of the fact other associations, such as the CMA that preceded us, will be providing the committee with numerous suggestions that would help Ontario manufacturers grow and prosper, we have decided to focus our comments on three commodity tax issues that continue to be a source of concern to the automotive industry in Ontario, and by virtue of the concentration of the industry in Ontario, the automotive industry in Canada. These three issues are goods and services tax replacement, taxation of warranty repairs and the tax for fuel conservation.

Before I turn the discussion over to my colleagues beside me at the table, I would like to provide some background on the Motor Vehicle Manufacturers' Association for the benefit of those committee members who were not with us when we met with you last year.

The MVMA is an industry association with nine member companies representing the interests of the traditional domestic motor vehicle manufacturers in Canada. I realize that distinction gets blurred as time tends to go on, but that's the focus of our membership. The primary purpose of the association is to provide an effective bridge for communication between the industry and government at a variety of different levels. A secondary aspect of our work is to act as an authoritative source for statistical information on the motor vehicle industry in Canada.

As further background, it's useful to note the economic significance of the companies the MVMA represents. One in six jobs in Ontario is directly or indirectly related to the automotive industry. Motor vehicle assembly accounts for more than 72,000 jobs in Ontario. Our parts producers employ some 77,000 people in Ontario. There are approximately 38,000 people employed in over 1,370 dealers in Ontario. Motor vehicle and parts sales account for about 47.6% of Ontario's international merchandise exports. Actual and committed investment by our members for the five-year period from 1992-97 will be more than \$5.5 billion.

From these statistics, then, there is adequate justification for using the phrase that the automotive industry is the "economic engine" of Ontario. It is imperative that governments understand the significance of the industry and the role it plays with respect to the economic wellbeing of not only Ontario but Canada as a whole. The industry and government need to continue to work together to find ways to sustain and grow this valuable industry and not fetter it. Without vigilance and forethought to the impact of public policy in aggregate on the auto industry, our current competitive advantages, where they still exist, will quickly erode.

On that note I would like to turn the meeting over to Bob Murray, senior tax counsel with General Motors.

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**Mr Murray:** We have three tax issues we're raising today with you. We've purposely kept our list to three issues because we would like to leave enough time for any questions the committee might have. These are very important issues for the automobile industry in Ontario and in Canada.

The first relates to GST replacement. We'd like to let you know that the position of the MVMA is that we're not in favour of any substantive changes to the GST system. We incurred fairly substantial systems costs and programming changes when we went to the GST system; like it or not, it certainly was an improvement over the federal sales tax system for a manufacturing company in Canada. So any tinkering that might be proposed in the system, to the extent that that's a wholesale change, we're against.

We would support one major wholesale change, though, and that would be a complete harmonization of sales taxes in Canada, and we've defined harmonization in our brief today. Harmonization for us means:

- A value added tax, based on the existing GST base, that is common in all provinces, and the rate also common in all provinces. Having different rates and different bases in provinces causes us a great degree of difficulty.

- A tax that would be revenue-neutral.

- Lastly, a single administration. We don't think there would be any need for duplicate administrations. The duplicate administration point can be made for other taxes too, I would note.

We certainly do not advocate increased personal tax, because we see it in the automobile industry when we try to market cars in Canada: Disposable income is a big issue for a lot of individuals looking to buy or lease new

cars, and to the extent that you end up taking money out of pockets, it does really pinch our market. So we don't support personal tax increases as a way to balance out the GST issue in one way or another.

One thing I'd like to really emphasize: Unfortunately, I didn't catch all of the CMA presentation before, but I think I heard that the Canadian Manufacturers' Association is not opposed to restrictions on input tax credits. The Motor Vehicle Manufacturers' Association is very opposed to any system that replaces the GST which results in restrictions on input tax credits. The reason is that, because such a great portion of our production is exported, that effectively becomes a cost on business inputs. In other words, it's going back to the federal sales tax system days.

If you thought the federal sales tax system worked and was good for Canada and didn't impede our exports, obviously you might think a restriction on input tax credits would make sense. Unfortunately, the reality in the industry is that it's horrendous because it is a cost to business inputs, and that has to be reflected in terms of a world economy. We compete with other jurisdictions, not only Canada but other areas where cars are produced. It is a very, very important issue for us and we would not support any GST replacement system that would look at restricting input tax credits.

Attached to our submission is the presentation we made to the House of Commons finance committee in 1994, and that essentially runs through in detail the comments I've made.

That is the first issue.

The second issue Jack Holman, from Ford Motor Co of Canada, and Aldo Dibiase, from Chrysler, are going speak about: the taxation on warranty repairs.

**Mr Holman:** The May 1993 budget extended the retail sales tax to warranty parts and labour. Levying a tax on warranty repairs is double taxation.

Warranty is an acknowledgement of a manufacturer's responsibility for the repair and replacement of defective parts. Motor vehicle warranty is the most extensive of any consumer product. It is a key element of our customer satisfaction, vehicle safety and environmental protection programs.

A purchaser of a motor vehicle buys a product and a service. The cost of the warranty is included in the selling price of the product. Sales tax is collected on the sale of the product, including warranty. No additional sales tax should be collected when repairs are made. The taxation of warranty repairs increases manufacturers' costs. This cost increase is reflected in the price of the product, which is again subject to the retail sales tax, resulting in a pyramiding of tax. Levying sales tax on warranty repairs creates a disincentive to offering consumer warranties, contrary to the best interests of the consumer.

In our view, governments should openly disclose to consumers the taxes they pay upon the purchase of a product or a service and not hide tax increases through increases in manufacturers' price, the effect that taxing warranty repairs has.



**Mr Dibiase:** I'd like to add that Ontario and Quebec are the only two jurisdictions in North America which tax warranty repairs. However, Quebec provides a full tax credit for any Quebec sales tax paid by automobile manufacturers, so it's not a cost to us. Therefore, Ontario is the only jurisdiction which penalizes manufacturers for providing warranty repairs. Also, because of the intensive warranties on automobiles, this tax discriminates against the motor vehicle manufacturers.

Ontario's position in taxing warranty repairs while being the major centre for motor vehicle manufacturing in Canada is symbolic for the following reasons. Other deficit-ridden provinces may adopt this measure as the enormity of the revenue grab becomes known. This in effect would represent a tax on Ontario automobile manufacturing by other jurisdictions. The proliferation of this tax would serve as an impediment to new investment and job creation. Policies such as these that result in double taxation raise serious concerns about the future direction of this government and causes US-based parent companies to question this government's interest in maintaining its current manufacturing base and in attracting new automotive investment. I'd like to turn it back to Dave Adams.

**Mr Adams:** The last issue we'd like to speak to this morning is the tax for fuel conservation, which you're all familiar with, I know. You recognize, I think, that it has been a thorn in the side of the automotive industry for some time now. To provide a little history, this tax was introduced by the Liberal administration in 1989. Our industry was not consulted prior to the introduction of the tax. We use the term "gas guzzler tax" colloquially, even though there have been other, nicer names surrounding it. It seems to have garnered that name from US applications as well; however, in the US it is a true gas guzzler tax that was put in place.

Since its introduction in 1989, the industry has stridently opposed the tax, especially the wider application of the tax and the increased rates of tax and the higher fuel-efficiency ratings at which the tax applied when the present government altered the tax in the 1991 budget. From our perspective, the tax is fundamentally flawed because it's aimed at altering consumer behaviour for the benefit of the environment. Because, really, there's a \$75 tax that affects 90% of the vehicles that are sold in Ontario, it becomes fundamentally a flat tax and nothing more than that.

The premise of taxing a vehicle with lower fuel economy ratings and rebating vehicles with higher fuel economy ratings suggests that people purchase a vehicle only on the basis of its fuel efficiency. The reality is that fuel efficiency is well down on the consumer's list of important considerations when deciding on a vehicle.

As an environmental tax, the TFFC is too narrowly focused, covering only new vehicles sold, which comprise less than 10% of the total number of vehicles on the road. This has a number of perverse effects. The vehicles with the highest fuel economy ratings and the best emissions control technology are being taxed. Taxing these environmentally friendly, or friendlier, vehicles with better fuel economy only induces people to continue to drive their

older, fuel-inefficient vehicles with inferior emissions control technology.

Even if the tax was successful in driving people into smaller, more fuel-efficient vehicles, there would be a certain amount of takeback effect. It's estimated that this could be up to 25%, which is to say that because the effective cost of driving a vehicle is reduced, consumers drive the vehicle more.

The tax makes no provision for utility, either. If a person requires a mid-sized vehicle for their family, no amount of rebate or incentive will induce the consumer into a subcompact vehicle.

As an environmental tax, the TFFC fails miserably. It is narrowly focused on new vehicles, which are the least polluting, and fails to address the larger question of the more than five million vehicles registered in Ontario. The better approach is to induce all motor vehicle owners to use their vehicles in an environmentally responsible manner.

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We would urge this committee to recommend the elimination of the flawed TFFC. Such a tax exists nowhere else in North America, it provides no environmental benefit and amounts essentially to a tax grab, as indicated earlier. Ontario is the home of the automobile industry, and we feel this sets a bad example for other jurisdictions as well.

There are suitable alternatives, which include potentially higher gasoline taxes or higher registration fees that could be linked to the amount of emissions technology built into vehicles, depending on their age, and that could be supported by a mandated inspection and maintenance program as well.

We have provided a list at the back of the individuals who are appearing before you today, but, as Bob indicated, we did want to provide a fair amount of time for your questions. We do thank you for your attention and will be prepared to answer any questions now.

**Mr Kwinter:** I'd like to address the issue of taxation of warranty repairs. Have you estimated how much money the tax actually generates?

**Mr Holman:** Province-wide?

**Mr Kwinter:** Yes.

**Mr Holman:** Not province-wide.

**Mr Murray:** I can make a comment in response to that. We were asked, through the Motor Vehicle Manufacturers' Association and the import association, the Association of International Automobile Manufacturers of Canada, on an individual company basis to send in to a discreet person what amount of tax we estimated would be collected, because obviously each of the companies has sensitive information as to what your warranty expenses are. That was provided, after the May 1993 budget and the implementation of tax on warranty repairs, to the Ministry of Finance.

With respect to the automobile industry, the amount of tax estimated to be collected based on actual 1993 repair bills that were coming in, the amount of revenue, we were told, was greater than the amount the Ontario

Ministry of Revenue predicted for all of the economy on warranty repairs. As to what the automobile industry portion was, I can't say. I can say what GM's portion was, but I wouldn't disclose that publicly.

**Mr Kwinter:** What I'm trying to determine is that in your presentation you say it would be an impediment to new investment, and I would like to get a handle on how much money we're talking about. Is it a relatively small amount of money or is it an incredibly large amount of money?

**Mr Murray:** On an annual basis in the automobile industry, my recollection is close to \$100 million.

**Mr Kwinter:** So the figure we're talking about is about \$100 million?

**Mr Murray:** Yes.

**Mr Kwinter:** That would be the amount the Treasurer of Ontario would forgo by removing this tax?

**Mr Murray:** That would be the amount of double tax that the Treasurer would forgo, because the purchase price of a vehicle also includes, obviously, a realization that there will be a warranty expense at some time, so prices include the anticipation of warranty expense.

**Mr Kwinter:** I'd also like to ask you about your GST replacement suggestion. When you talk about being revenue-neutral, I think one of the biggest problems that people have with GST—and I certainly agree with you that the GST is better than the hidden federal tax that we had before—is that it was proposed that this would be a revenue-neutral tax when in fact it turned out to be a windfall tax for the government. In your projections and in your examination of this particular rationalization, are you contemplating that the GST would stay at its present level or would it truly be revenue-neutral?

**Mr Murray:** We're contemplating that it would be revenue-neutral in terms of the country at large, that we would have to have a single rate. Let's assume that in the Ontario context that rate is 7% and 8%. You add it and it becomes now 15%. Obviously, a 15% rate in the maritime provinces would result in a loss of revenue to the maritime provinces.

Our recommendation is that this is a national issue. It would have to be addressed through the federal government and a revenue-sharing allocation formula between the provinces. It just happens to work out that, with the exception of Alberta, all of the provinces which have sizeable economies have sizeable sales tax rates. I don't think the need to share revenue from the federal government to Ontario would be that great at a 15% rate.

Our great concern is that we'd love to see less than the 15% rate if we could achieve it, but we're not here asking for a reduction in sales tax rates. We'd like to see that, but we realize there is a squeeze with respect to government finances, public finances. What we don't want to see, and this is really where the revenue-neutral point is aimed, is we don't want to see a 14% rate, for example, on a national basis plus additional personal income tax increases to make up the 1% which at the end of the day are greater than what would have been a 15% rate.

**Mr Carr:** Thank you very much for the presentation,

and I think more importantly the people of this province should be thanking you people for, quite frankly, keeping this economy going.

I shudder to think where we would be without the automotive manufacturing, and that's a tribute to the management and the workers, because the workers have contributed a tremendous amount. Notwithstanding Gord Wilson's comments this morning about losing jobs to the Americans, the fact of the matter is you've proved that we can do the job faster, better, cheaper and produce cars better than the Americans, and we should all be proud of that.

It's interesting that we're dealing with a taxation issue and you're tax experts. I was sitting here thinking we're looking at \$100 million on a \$45-billion revenue and that governments, in their squeeze for revenue, are so squeezed that we're not even looking at the 33% we get for personal income taxes or the corporate tax rate. We've got to the point where we're now trying to squeeze the last penny out of companies, and ultimately, as I sit here, I think it's a bit of a shame that you have to come in and talk about these small issues, although big to you, where the government is trying to squeeze the revenue out.

So I want to talk in the broader context. I don't know if you know too much right now, but the big debate is, what do we have in this province, a spending problem or a revenue problem? That will be the big debate in the election, quite frankly. People like Alberta believe that they have a spending problem. We certainly do. We think we do not have a revenue problem and we should not be sitting here squeezing the last \$100 million out, that we have a spending problem.

Your industry has done a great job of squeezing costs out. You would not be sitting here, any of you, had you not done that. Looking at the government, we believe the government can do the same thing that you've had to do, that the workers in my riding at Ford have had to do to remain competitive.

So I want to ask you, and I don't know who wants to answer, whether you gentlemen believe that in fact here in the province of Ontario we have a revenue problem, or do we have a spending problem?

**Mr Holman:** I believe we do have a spending problem. I think the CMA was addressing that and we had left it for them to address, but just looking at the multiplicity of the taxation by various levels of government, simply the harmonization of the GST will take out a level of administration. That will then cut down or reduce the spending by industry and by the government in administering the taxes. So we can look at it simply in our own area where we operate that continually we have people from all levels of government in and out of our office. We dedicate a space to auditors. I'd like to see some relief on that.

**Mr Carr:** I also want to thank you: You may be familiar that your government affairs people have been meeting with our caucus and giving us suggestions in detail, and they've been excellent. They've been going through everything from WCB, what needs to be done, and I want to personally thank all of you, right up to the



presidents of your companies. It's been very, very helpful in the learning process for ourselves on all the issues and they've been very, very fair in how they want to approach it and they've been very practical.

I think it's a good commentary that we've got people in this day and age like yourselves who are swamped trying to keep up with competing with the biggest economy in the world, because your competitors are the Americans, and you're doing that. You're beating them. At the same time, you've survived, I will say this, with all the impediments that governments of all levels and of all political stripes, quite frankly, have put in front of you.

It's a great tribute and I wanted to thank the people who have been involved. Primarily it's been the Norm Stewarts and the government affairs people who have been doing that, but I'm sure a lot of the work has come through all of the people in your management who have put that forward. Things like workers' compensation that need to be addressed and Ontario Hydro costs are tremendous responsibilities that will have to be taken up.

If you could list some of the things that the government should do—

**The Chair:** Mr Carr, I'm afraid you've used up your four minutes.

**Mr Carr:** I praised him so much I didn't get a chance to ask him a question. But again, thank you very much and good luck to all of you.

**Mr Randy R. Hope (Chatham-Kent):** I notice the list of members you have and I notice the partnerships we as government have had with you in helping create jobs: Jobs Ontario and other programs that are out there.

I'm interested in your comments dealing with the GST and harmonizing the provincial tax with the GST. In an earlier comment you mentioned about your consumers. Most of the people I know who buy the Fords, the GMs and the Chryslers and even the Navistar trucks that are out there, people look at the monthly payments. They don't have \$10,000 to put down on a car; they say, "What's this monthly payment going to be?"

You talk about incorporating and harmonizing the GST and the PST and you talk about disposable income of individuals. If you were to harmonize them, which has been done in other provinces, into more of the basic everyday needs of individuals to purchase stuff, you take away that disposable income aspect from the working family which is looking at, "What's my monthly payment for the new Ford, the Chrysler or the GM?"

I'm asking, has that ever been considered? You're looking at it from a business perspective and in that business perspective you talk about your consumer. Then I want you to look, on the other hand, at the individual who's living probably paycheque to paycheque—most people do—and then is trying to make within that paycheque to paycheque the ability to purchase one of your new vehicles. I'm wondering if you had looked at that broader context when you talked about the harmonization issue.

**Mr Murray:** I'll answer that. I have a few reactions to it. The first reaction is that someone who pays a 15%

sales tax, which is a harmonized single tax, or someone who pays a 7% GST or an 8% provincial sales tax in the case of Ontario, I would think paying that tax would be transparent to the person. It's the same amount of money in both cases.

What do you achieve? You achieve some degree of efficiency in terms of avoiding duplication of audits and efforts at the corporate level, obviously, and throughout the economy, and you avoid having two sets of government bureaucracies administer two sets of rules that sometimes compete with each other in very difficult ways.

At the end of the day, if your question is, can you say that the consumer is going to notice in a tangible way that there's a reduction in the price of an automobile, I doubt we could answer yes, but certainly it makes us more competitive and I think it makes government more competitive, which has to be the goal.

**Mr Hope:** You talk about those currently having GST and PST. What about those services that do not have PST associated with them? Let's face it, when you talk about harmonization, there is a broader context that the GST covers than the PST covers.

**Mr Murray:** I guess I have a response to that because obviously there are advantages which have been created over a number of years, that sectors of the economy are not taxed in the same way that goods are taxed.

If you recall, under the federal sales tax system, was it right that automobiles were subject to a 13.5% sales tax prior to the implementation of GST, and was it right that consumer goods like that and the consumers of those goods should bear the brunt of generating all of the sales tax at the federal level for the Canadian economy when so much of our economy has gone from a goods-oriented economy to a service-oriented economy? I have some difficulty in terms of the inequity that's created. And we're not only a goods provider in the automobile industry; we also provide some services.

**Mr Hope:** On the environmental aspect of things, you talk about the gas guzzler tax—

**The Chair:** Mr Hope.

**Mr Hope:** Yes, just very quick. With a \$170-million facility being put in place for ethanol, which is an environmental fuel, are you persuading the federal government to move on MMT emissions, for there to be standards to deal with the pollution aspect so that it pleases the environmental groups that are lobbying us to put in the gas guzzler tax and other taxes that deal with fuel?

**Mr Adams:** If I can make just a quick comment. We've been lobbying the federal government for some time for the removal of MMT and looking at reformulated fuels for vehicles as well. One of the problems with motor vehicles is that you can only take the vehicle technology so far; then you need to get the fuels on stream as well. We need to work with the petroleum producers and what not to make sure that we have the fuels in place that are going to allow the new emissions control technology to be on board and the diagnostic systems and new generation loads to function

properly. That's currently a discussion that we're having at the federal level, but yes, those things are being undertaken.

**The Chair:** I'd like to thank the Motor Vehicle Manufacturers' Association for making its presentation before the committee this morning.

Before everyone leaves from the committee, I'd like you to know that we've had a cancellation this afternoon. The Ontario Taxpayers Federation will not be here. They are going to be replaced by the Toronto International Film Festival Group at 3 pm. I just thought I'd let you know that before you leave for lunch.

*The committee recessed from 1205 to 1402.*

#### ONTARIO SEPARATE SCHOOL TRUSTEES' ASSOCIATION

**The Chair:** The first presentation this afternoon is by the Ontario Separate School Trustees' Association.

**Mr Pat Daly:** My name is Pat Daly. I'm the first vice-president of the Ontario Separate School Trustees' Association and a trustee in the Hamilton-Wentworth Roman Catholic Separate School Board.

I am joined by Mary Hendriks, the past president of OSSTA and a trustee on the Lincoln County Roman Catholic Separate School Board; Peter Derochie, the president of the Ontario Separate School Business Officials' Association and the superintendent of business for the Simcoe County Roman Catholic Separate School Board; Patrick Slack, the executive director of our association, and Earle McCabe, the deputy executive director.

The Ontario Separate School Trustees' Association represents 53 Roman Catholic separate school boards of all sizes and from all regions of Ontario. These boards provide Catholic education programs and services to nearly 600,000 students.

We appreciate the opportunity to meet to discuss funding issues that have an impact on the quality of educational programs available to all elementary and secondary pupils in Ontario.

We've provided a copy of our brief, which I believe you all have before you, entitled *In Pursuit of Equity*. The brief presents the case for equity for all students and all taxpayers in Ontario. It argues that the current funding approach, which is built on a model developed 25 years ago, does not provide equity for students and taxpayers in assessment-poor boards, whether these boards be separate or public.

We are cognizant and appreciative of several initiatives which have reduced the equity gap for elementary and secondary pupils across Ontario over the last few years, and these are outlined on pages 4 and 5 of our brief. I'll just highlight a few of them for you.

First is the increase of the ceilings by \$100 per pupil, which took place in 1994.

Bill 160 was passed in 1994, and we believe the recognition of per-pupil funding as outlined in that bill is an important step forward.

The allocation of \$620 million for 1996 through 1998 in capital funding was of great assistance.

The enhancement of high-growth capital assistance or debenture relief for boards incurring significant debenture costs was a big improvement.

Finally, there was the \$5 million in funding for the Ontario education highway.

In the context of available revenues and competing priorities in these difficult economic times, it is generally accepted that the \$13.8-billion investment made by the school boards and the province in elementary and secondary education in Ontario in 1994 is adequate. We believe that while the \$13.8 billion may be sufficient, it is most definitely not being fairly distributed.

The former Minister of Education, Marion Boyd, declared in 1991 that the current funding model is broken. The final report of the Fair Tax Commission in December 1993 confirmed that the model is broken with inequities both to students and to taxpayers. The education finance reform project came to similar conclusions on the issues to be addressed, with consensus on a new approach to provide for greater equity and accountability.

Most recently, the Royal Commission on Learning stressed the importance of significant education finance reform, and I quote from that document. The commissioners state, "You can't talk about equity in schooling without talking about equity of funding." I'll refer to one specific recommendation in the report, recommendation 159, which reads as follows:

"The commission recommends that equal per-pupil funding across the province, as well as additional money needed by some school boards for true equity, be decided at the provincial level, and that the province ensure that funds be properly allocated."

We wish to reinforce the need to respond to the recommendations of both the Fair Tax Commission and the Royal Commission on Learning. We accept that a reasonable transition plan is necessary in any major reform, provided that equity is not postponed and that there is relief provided to assessment-poor boards.

It is in this spirit that we recommend on page 7 of our brief that, for the sake of equity and accountability, the government proceed with education finance reform, including a reasonable transition strategy.

Now I'd like to invite Mary Hendriks to comment on some of the immediate recommendations, please.

**Mrs Mary Hendriks:** The next several pages as begun on page 8 will present interim initiatives in support of long-term reform.

While finance reform, with its focus on a fairer and more accountable distribution process, coupled with a fairer use of the property tax, is essential, OSSTA acknowledges that full implementation of a new approach will require a transition strategy. Consequently, concrete measures must be taken in 1995 to address immediate funding problems, yet support the long-term directions of reform.

We have clustered these into four areas: fairer allocation of available resources; communication and consultation; capital and transportation; and board operations. We will deal with the first two areas, and Peter will address the other two areas.



The first section then: fairer allocation of available resources. Proposals in seven areas are set out to provide a fairer allocation of whatever moneys are available. We also believe these lend support to two principles that guide the determination of the level of provincial support available to a school board as found in the ministry's education funding model.

These two principles are: All school boards must have equitable financial resources to provide a base level of education; and all property ratepayers must make the same tax effort to raise the local share of the costs of providing the base level of education.

The first area then is increased ceilings. In the interests of time, I'll simply read the recommendations in these sections. OSSTA recommends that per-pupil ceilings be increased in the 1995 general legislative grants to a more realistic level to alleviate some of the financial pressures that continue to be faced by assessment-poor boards across Ontario. This doesn't mean adding more money; it means a real allocation of existing resources to provide greater equity.

On page 9, the second area is determination of realistic costs. OSSTA understands that a first draft of a report concerning resources and their costs, using 1991 data, has been completed by Ministry of Education and Training officials. We therefore recommend that a joint consultative process be established involving government finance officials and technical experts from stakeholders to determine a more realistic costing of recognized expenditures. This process will involve (a) identification of human and physical resources required to provide education programs and services to elementary and secondary pupils and (b) their costs. Recommendation 162 of the Royal Commission on Learning report addresses this same issue.

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The third area is a fairer use of commercial and industrial assessment. If you move to page 10, the lack of fairness in the sharing of commercial and industrial assessment wealth among coterminous boards remains a key issue. There are two specific areas of concern: the first, the assessment base, is an issue which is described on pages 10 and 11; and on page 11, the second, we see some problems resulting from Bill 64, and those are outlined on our pages 11 and 12.

Given those concerns, OSSTA recommends that legislation be amended to provide that all non-residential farm and farm assessment be pooled except for assessment of property owned or leased by individuals, partnerships of individuals and private corporations with share capital; and that legislation be amended to permit private corporations to direct their assessment to the support of Roman Catholic separate school boards according to the proportion of Roman Catholic shareholders to the total number of shareholders.

The fourth area is the fairer use of residential assessment. If you look on page 13, the recommendation, we recommend that all residential ratepayers be obliged to choose which school board they wish to support depending on their constitutional entitlement and that in those instances where taxpayers refuse or neglect to do so, their

assessment be pooled and divided among the coterminous school boards on the basis of student enrolment. We noted in the Royal Commission on Learning report that it echoed our concern in this regard by its recommendation 161.

Our fifth area is payments in lieu of taxes. Few, if any, municipalities share with school boards, public or separate, the education portion of payment in lieu. OSSTA recommends that the Municipal Act and the Education Act be amended to require that all payments made to a municipality in lieu of taxes be shared equitably, as determined by the proportional share of educational taxes collected under the applicable mill rate operative in the municipality, between the appropriate school boards and the municipality. The school board share should be divided among the coterminous school boards on the basis of student enrolment.

On page 14 we outline our concerns in regard to ending downloading. We recommend that the provincial government fully fund all new provincially mandated programs and services which impose additional financial burdens on school boards.

Our seventh area in this section is planning for the end of the social contract. The most glaring evidence that the current model is broken is the fact that there are boards in a negative grant position and thus outside the funding model. That is, they do not receive any equalization payments and do not return surplus revenues to the province.

On page 15 we outline our recommendation, that planning for the end of the social contract in 1996 take into account the unfair advantage for boards in negative grant situations versus boards that must deal with a \$425-million loss in grant revenues.

Now I would like to ask Peter to continue.

**Mr Peter Derochie:** The next area that we'd like to comment on is in the area of communication and consultation. In 1992-93 the Minister's Advisory Council on Education Finance Reform was established, and it met seven times and brought together key education stakeholders. It was a useful forum to share mutual concerns and review options being considered.

Our recommendation today is that a formal consultative process be established as a successor to the Minister's Advisory Council on Education Finance Reform. We're aware that the advisory council and some of the spinoff work of that group prepared and developed some models that are ready to be, if they have not been, presented to the government for consideration.

Our second recommendation in that area is that renewed efforts be made to simplify and communicate funding policies and formulae in the general legislative grants in the interest of greater understanding and that annual in-service be organized for board business supervisory officials to brief them of changes in funding policies and procedures.

The background on that specific recommendation is tied to the accountability in our education system. What tends to happen is, because of the lack of clarity, the two parties, the government and the boards, will point fingers

at each other and the taxpayer is left uncertain just exactly what the issue is.

The next area we'd like to comment on is capital and transportation, the first being in the area of growth-related capital. Under Bill 17 the government now provides its share of approved capital expenditures as a loan rather than as a direct capital grant. OSSTA continues to believe that the way the local share of capital projects is funded is unfair to those boards which are faced with high enrolment growth and where education development charges are not applicable.

Further, OSSTA believes that the need for new pupil places is generated by migration or immigration, which are factors beyond a board's control, more provincially driven factors.

On this note, OSSTA recommends that the local portion of growth-related capital expenditures be equitably shared by applying a standard mill rate to all ratepayers in the province, and further, that the high-growth capital assistance program—some would relay that as debt assistance—be further revised in 1995 to apply to boards having growth capital between 1986 and 1991 that was two times greater than the provincial average.

On the area of renovation and renewal, recognizing the pressure in the province to fund new pupil places, only a small percentage of ministry capital funds have been available to meet this need. Further recognizing the pressure and downsizing in boards, limited financial resources have been available to attend to this.

In order to help assist that problem, OSSTA recommends that renovation and renewal be funded by a per pupil amount adjusted for the age and geographic location of schools and that boards be required to establish board renovation and renewal reserve funds in order to enhance cost-effectiveness and maintain the value of properties. That's to make sure those targeted funds don't roll into operating but rather into the targeted areas they were initiated for.

The last area in this before we move into board operations is on transportation for the gifted. There are a number of programs boards are mandated to provide for students in their systems, which compound costs, and one of those costs is transportation.

OSSTA is recommending that the ministry amend the general legislative grants to include approval of transportation costs for gifted pupils so that the policy for transportation of exceptional pupils is uniform and equitable and that the ministry ensure that the funding be sufficient to provide that no additional costs will be incurred.

On the transportation policy issue, boards are commenting and OSSTA is recommending that boards be fully consulted before any changes are made to the funding of transportation.

The last area we'd like to comment on is in the area of board operations, the first being the timeliness of information. We recommend more timely or earlier release of information so that boards may have time to plan on a longer-term basis the implementations of the impacts so

that program impact is minimized.

Our recommendation is that the transfer payments be announced by November 30 of the year before they are due and be published annually with the government's best estimate for the next two years; further, that the 1995 GLGs be released by February 15, 1995, at the latest to enable all school boards to complete their annual operating budgets by March 31.

In the area of fiscal year, that's probably not a new area of concern for the trustees. We basically operate on a school year basis but finance and budget on a calendar year basis, and it poses some difficulties for operations in light of the uncertainties of revenues as we're going into the next school year. OSSTA recommends that the school board fiscal year be changed to September 1 to August 31 as of September 1996.

In the final area, the area of cash flow, the recommendation is that the Minister of Finance take the necessary steps to ensure a more equitable cash flow for operating grants, and that the practice of withholding the 7% of grant payments until the audited financial statements are received be discontinued.

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**Mr Daly:** In conclusion, our paper reinforces the need for a new approach to the funding of elementary and secondary education in Ontario. We believe a new approach is required for the sake of equity for the key clients of our education system—the students—and for those who pay the bills: the taxpayers.

This paper recognizes that although moving to a new model requires a transition period, some funding pressures require immediate attention. We believe that education is a shared responsibility between the province and locally elected school boards. Both partners face challenges to provide excellence in education to help each learner in our schools be the best that she or he can be.

OSSTA, representing 53 separate school boards across Ontario, extends its hand to work with the province, with the school boards and with other agencies at the local level in support of steps for a quality learning experience for the almost two million students in schools all across this province.

We urge the provincial government and the Ministry of Education and Training to implement the proposals in this brief.

Again, thank you for the opportunity to present our brief. We'd be happy to respond to any questions you may have.

**Mr David Johnson:** Thank you very much for your brief. I certainly appreciated the information in it. I don't think I've seen such an extensive brief during the week we've been here, nor so many recommendations.

As I understand it, you're basically saying there is enough money in the education envelope, so what you're talking about then, probably through assessment changes, is a transfer of some moneys from the public sector to the separate school sector. Is that essentially what we're talking about?

**Mr Daly:** Yes, exactly. We're saying that assessment wealth has to be redistributed throughout the province



from assessment-rich boards to assessment-poor boards.

**Mr David Johnson:** I guess at Queen's Park we're sort of in the middle of this. The public school boards from time to time claim that one of the flies in the ointment with that sort of approach is that the public school system, according to them, ends up with more of the special cases, the special-needs classes, that sort of thing, and their approach is that this adds a considerable cost to the public school system that isn't borne by the separate school system. I wonder what your response to that is.

**Mr Daly:** We've seen no evidence to indicate the fact that public boards educate, proportionately, any more special-needs students than separate school boards. Clearly, their costs are greater because they educate more students, and their costs, because of their assessment wealth, are higher than ours. But many separate boards, if not all, have very good and extensive programs for special-needs students and we think serve them very well.

**Mr David Johnson:** Is there an average or a range for the cost per pupil in your system across Ontario?

**Mr Daly:** I don't think there's an average.

**Mr Derochie:** At best, I would make the hypothesis that our average cost of education is lower.

**Mr David Johnson:** But you don't have a number per pupil.

**Mr Derochie:** No, I don't. I'll use the example in Simcoe separate, where I'm from. Our estimated cost of education for elementary and secondary school pupils is approximately \$750 lower than our public counterpart.

I'd like to make one comment, further to what Pat was indicating, around educating more special-needs students or special education students. Recognize that in the province, in the elementary school panel, we admit students of supporters of our system, so our costs are tied to our supporters.

In the secondary school panel, under the open access provisions, where students of families who are public school supporters may attend our system or vice versa, our boards would be paying a tuition fee to those public boards for those high-cost students in attendance in their schools. So although the public boards make that claim, there is provision in the funding model in legislation and regulations, and the separate boards in those cases do pay those costs.

We don't have facts to support that claim, but there is funding in place and provisions for the separate boards to pay the public boards and vice versa. So I'm not sure where the additional burden is, when we actually pay.

**Mr David Johnson:** On page 15, you make reference to boards that are in negative-grant situations, and your recommendation is that when the social contract expires the province take into account that some boards are in a negative-grant situation. Could you explain exactly what you mean by that?

**Mr Daly:** We have great concern. The fact is that the government is extracting \$425 million from all boards in the province and it's our understanding that \$100 million of that is coming from the two boards that are in negative-grant situations. Our concern is how that money will

be passed to the province, coming out of the social contract. Our major concern is that the \$100 million not be downloaded to those boards throughout the province that are currently paying the \$325-million extraction, thereby making an even worse situation for the assessment-poor boards.

**Mrs Karen Haslam (Perth):** We heard earlier—and I apologize; I can't even remember from whom—talking about sharing of facilities. One of the things they mentioned was that there was a different grant situation for separate systems in their transportation budget for running their buses than there was in the public system, and therefore the idea of joining together and providing them was not a viable option for separate boards. They didn't look too kindly on it because they were actually losing money, or there wasn't that impetus to combine the services of transportation. I wondered if you would briefly address that. I didn't quite understand that.

**Mr Derochie:** The funding of transportation for students is exactly the same for public and separate school students or school boards. There are many initiatives, actually, to the contrary of that, where many separate school and public school boards have formed consortia, task forces, or whatever the local name is. The boards have actively been pursuing joint transportation initiatives; in fact, that was one of the targeted areas for which the province provided incentive grants a couple of years ago to boards. I'm very familiar with a number of successful projects, and the synergies and savings being realized in that area are significant.

**Mrs Haslam:** I agree.

**Mr Derochie:** I'm not sure where that resistance is coming from.

**Mrs Haslam:** I'm not either. I was kind of surprised when I heard it, but I wanted to investigate it further.

One other question around the social contract: I've heard that the boards end up in a very good situation when the increments were frozen on the social contract, that because those increments were taking place, at the end of the social contract the money that was budgeted but not spent on increments has been used to offset some of the cuts, some of the efficiencies you're trying to find within a board.

The issue was whether there would be real restructuring at the end of the social contract if the government merely said, "Fine, everybody goes back into the grid where they belong," because of the cost to the board, and whether there were real savings there that could be found for that issue.

**Mr Derochie:** This issue, by the way, is part of the arbitration hearings going on around the social contract. Clearly, boards are realizing savings in years two and three of the social contract, as increments aren't being paid. If they're being paid, they're being bought or purchased by the various groups by increased Rae days or staffing adjustments. However, the forced restructuring in that case is still necessary. The debate on whether years two and three freezings are attributable to the social contract, and issues related to that, are still at the arbitration table.

But I would readily admit what your belief is, that years two and three savings in increments are there, but recognize that boards are still wrestling with—I think the social contract was a \$425-million reduction in education and the expenditure control plan was \$275 million. So it's also providing relief in that area of the burden boards are experiencing.

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**Mrs Caplan:** I appreciate the excellent brief you've presented to the committee. I have a couple of concerns and questions that I hope you'll be able to answer.

For people watching these proceedings, I know sometimes the language is complicated. Certainly when we talk about negative grants—I've said here before that I don't think anybody understands the education funding formula. For no other reason than the fact that nobody really understands it, I agree it must be changed to reflect a method people do understand. We can have the debates about how that should be changed and so on, but I think there's a recognition of the need for that kind of reform.

But what I'd like you to address now really is the concern that you have, and that I share, about what's going to happen at the end of the social contract. I'm concerned that you say no planning has taken place. The Treasurer was very clear before this committee when he said there will be no more money. What impact is it going to have on teaching of students in your schools if there are no additional moneys coming in and there's no planning for this ballooning of costs that we have all been concerned about?

**Mrs Hendriks:** In terms of explaining the boards that are in a negative grant versus those who aren't, all but a very few of those negative-grant boards are reliant on the province for grants. The province has said that after the social contract, that \$425 million is permanently gone. It's not just during this period of social contract.

Presently, the boards that are in the negative-grant position are expected to fund approximately \$100 million of that \$425 million in total. At the end of the social contract, they will no longer have grants withheld; they don't receive grants. Therefore, if the province is expecting to still have \$425 million permanently reduced, that \$100 million that is no longer going to come from those two boards will have to be redistributed to the rest of the public and separate boards that are reliant on grants.

The concern we have is the impact that will have on the boards at the local level, coupled with the concerns that were outlined earlier in the expenditure control plan. All those impacts will seriously make it very difficult for boards to continue to provide the services and programs that our parents and students are entitled to have.

**Mrs Caplan:** Could you tell me what you're hearing from the Ministry of Education about that problem? Do they expect the \$425 million from all the boards? What's their expectation about what's going to happen?

**Mr Daly:** We've made it clear, in a number of discussions with the minister and ministry officials, our concern about this matter. We've heard discussion about certain ways of dealing with it, but we've not seen anything in writing or any firm commitments. We again

raise it here and will continue to do so with the minister. It must be dealt with. It cannot be allowed that that \$100 million be downloaded to make a bad situation even worse.

**Mrs Caplan:** But you've raised it and there's been no action taken to resolve it?

**Mr Daly:** Not at the present time.

**The Chair:** I'd like to thank the Ontario Separate School Trustees' Association for making its presentation before the committee this afternoon.

**Mr Sutherland:** May I add something, just before the next group comes on? There has been quite a bit of questioning about the ministry's economic growth forecasts and the consensus in what it's come up with in comparison to some of the other groups that have presented. I asked the ministry officials if they would present to us the consensus forecasts. I've tabled a copy with the clerk and I believe she's going to distribute that, both the forecast for 1995, which forecasters they're going with, and then to the out years, to 1998.

**The Chair:** Thank you very much, Mr Sutherland, for sharing that with us.

#### ONTARIO SECONDARY SCHOOL TEACHERS' FEDERATION

**The Chair:** The next presentation is the Ontario Secondary School Teachers' Federation, if representatives would please come forward and make yourselves comfortable. Certainly you're both familiar to the members of the committee, but if you would identify yourselves for Hansard, it would be appreciated.

**Ms Pat Wright:** My name is Pat Wright. I sit on the executive of the Ontario Secondary School Teachers' Federation and I have been assigned educational finance, so I guess that's why I'm here. We have Larry French, a member of our staff who is also assigned to finance in some way.

First of all, I'd like to express our appreciation for being allowed to be here and to make our presentation. Our president, Liz Barkley, whose name you'll see on your agenda, has asked me to express her regrets at not being here; she's unavoidably absent. We welcome the opportunity to be here. I don't need to tell you how interested and active we have been in the area of education and what we see to be the need or the area in which education should be going.

As representatives of the service providers in the public domain, we are impacted both directly and indirectly by the disposition of funds from the public purse, so we feel it's necessary to make some comment on funding of education.

But not only should we make comment on the funding of education; we believe the funding of education is in part also impacted by federal government policies.

We also believe there's a need for reform of funding and for taxation models to ensure that there is an equitable distribution of costs among the citizens of Ontario.

So when you look in our presentation you'll see it divided into three main areas: the funding of education, impact of federal government policies, and the reform of taxation.



In speaking directly to the funding of education, we feel it necessary at this point to make some reference to the recommendations put forward by the Royal Commission on Learning, because we have a sense that it may be a direction the government may choose to go in and we want to put our comments on the record. The Royal Commission on Learning was not mandated to address funding issues, but they chose nevertheless to do so, so it's appropriate that we make some response.

They have made in their presentation a concept that we should be looking at the per-pupil costs of education, the accurate per-pupil costs of education. We welcome that suggestion because we feel that indeed the adequacy of funding is something that must be addressed. We would welcome the opportunity of working with boards, of working with our colleagues in the other teacher federations, to develop such a model.

There are, however, other recommendations put forward by the Royal Commission on Learning which we find quite disturbing. There are, for instance, recommendations that deal with the pooling of assessment. We find those of great concern because it could mean there's a possible shift of \$250 million, about \$125 per student, away from the public boards to the separate boards.

We believe that in the public system you would therefore have public school supporters who may not agree with the values espoused within—I'm not commenting on the merit of the values, but they have, for instance, fundamental and different religious beliefs in terms of what is espoused in the separate school system, and those public taxpayers who support the public school system will be placed in a position where their tax dollars would be used to fund a system they do not have any belief in.

They would also be used to fund a system which practices discriminatory hiring and which would be in a position to deny them jobs in a system that their tax money was being used to support. We believe that is unconscionable.

We believe that if the recommendation were followed to place a cap on the discretionary funding, it would be a shortfall to all boards of about \$1.5 billion—not "million" but "billion." Our research has told us that this idea has been around for a very, very long time: I'm told since about the 1960s. It was never implemented because it was not workable, because such a cap would have a crippling effect on public education and secondary education, and in fact it is prohibited from being imposed on the separate system.

So you look at two systems and one would have a cap and the other one wouldn't have a cap, and then you take money from the one that has a cap to also give to the one that doesn't have that kind of limitation. I have some problems with that.

1440

We believe that the existing property tax arrangement is protected by the Constitution and it recognizes that the public system has an open-door policy for all our students. I was interested in the answer to the question from the previous presenters, because we believe that we do

have more students in need of special education, and therefore it is necessary for there to be more funds to the public education system. So it's not a matter of equity in terms of equalizing the basis.

Because of those responses, you'll see our recommendations 1 to 4 dealing with that.

Now, in terms of the other two sections—the impact on the policies of the federal government and the reform of taxation—I turn it over to my friend and colleague Mr French, and I'll come back to close.

**Mr Larry French:** Thank you, Pat. We would like to push the envelope just a little bit and move you into the area where Ontario we think can have a good influence on federal policies that would benefit the revenue situation in Ontario, which then helps with our public enterprises.

We're very concerned about the impact of the high interest rates on our economy and on our economic activity. As we point out in the opening paragraphs at the bottom of page 9, the United States can afford to raise interest rates at the Federal Reserve board level and not damage its economy the way Canada does because they have longer-term residential mortgages, 20-year and 30-year mortgages, so there's a great buffer against the negative impact on the economy. Homeowners are protected from immediate financial impact. This does not prevail in Canada and therefore we're in a much more difficult, more critical situation. As the Paul Martin papers have shown, we are paying, every one of us in Ontario, about \$1,430 per year in interest payments. The social programs, including post-secondary education, cost us about \$1,300 per year. So there's a great disproportion in what is occurring.

We would like Ontario to press the federal government to get the Bank of Canada to act within its mandate to relieve some of the debt load and some of the interest rate pressure on Ontario by patriating Ontario and Canadian debt. As the debt instruments come due, the Bank of Canada can help by assuming them at nominal interest rates, maybe zero, and perhaps also there's an increased role for the province of Ontario bank in this role in enhancing the role of the Bank of Canada.

We've also seen the role of currency speculation in our economy recently. In the turmoil around the Mexican peso, the run on the Canadian dollar, we had the bizarre situation of Canadian money speculators creating a panic situation in which the Canadian dollar dropped. They were betting against the dollar and profited from it. We think this type of activity should be regulated—it is not; Canada can't do it alone; it must be done internationally—because it is non-productive, destructive, parasitical activity and we would urge Ontario to press the federal government to put an end to it.

Also, to help capture some of the revenue in the economy that is being generated by the interest rates, we would ask that Ontario press for a surtax on windfall interest rate income.

The other concern that is getting more and more attention, I think certainly at the federal level, is the financial transactions tax. A tax on stock and bond and

currency transactions would, at a very, very nominal fraction of a per cent, capture billions in revenue. Depending on the fraction of the per cent of tax, you could decide how much revenue you needed from it. There are models around. The federal government has been given a couple of models that would make this thing work. Again, it needs international cooperation. It would amass a great amount of wealth and it would also slow down some of the destructive, hot money currency speculation and the paper speculation that is a feature of the new, modern economies.

Also, as the federal government debates what to do about the federal transfers, we would hope Ontario would use its moral influence to urge it to maintain the cash transfer system, not to abandon it, and the issuance of national standards. If it doesn't, then we might see the situation where the lowest-common-denominator province puts very high pressure on the other provinces to downsize their public programs. We think this would be very regrettable. As it is now, the federal government does have leverage through the cash transfer to maintain the national standards.

On page 13 we're into the Ontario tax reform. The Fair Tax Commission made certain recommendations, which have not been picked up, about enhancing progressivity. As we show you, the wealth gap is very wide in Ontario and it's getting wider, as it is federally. We think that more progressive taxation would allow our wealthier citizens to make a more appropriate contribution.

The first would be the wealth transfer tax, in partnership with the federal government and the other provinces. That would slow down the widening gap between poor and rich and it would bring in much-needed revenue. Then, restoring the former progressivity to income tax: We think that it was an unwise decision to collapse the 10 tax brackets into three and that we should return to a much more progressive tax situation where wealthier, high-income earners pay proportionately a little more.

The corporate tax share has been a theme that many of the federations and unions have stressed should be addressed. It's low by OECD standards. Our corporate income tax brings in about 1.8% of GDP and the OECD average is about 2.5%, so that we would not be disadvantaging Canadian enterprise if we did move up that contribution, at least to the OECD average, which would be significant.

There is one other tax we urge you to consider too. In order to help capture some of the difficult-to-nail-down income from transnational corporations, we like the system of formulary apportionment that Neil Brooks suggested in his minority report to the Fair Tax Commission. Essentially, you get a tax contribution from transnationals proportionate to the amount of economic activity that they have within any jurisdiction. So if they're producing their goods in Indonesia, the proportionate amount of sales that come to Canada would generate a proportionate amount of income. We think that would be a better system than what we have now.

1450

**Ms Wright:** We have proposed a model, which I am sure you have heard of before, called our confederated

school board model and we feel that this model could provide cost savings in education by removing overlap and duplication. The model is really contained in the appendix. If you have not seen it before, it's in appendix D.

What we are really proposing is that we confederate, as it were, the school boards, and in confederating the school boards there will be necessarily some sharing. We believe that is necessary. The pie is not getting bigger and there are more spoons dipping into it. So we have to find ways in which we can make the system work. We have to determine what the adequacy of funding is.

But I do not believe that we can any longer afford to have or fund two parallel systems. The question then becomes, how can we make the systems work together? We do not believe that robbing Peter to pay Paul is the way to go. We believe that we could be sharing.

If you look at the model, for instance, on page 14 of appendix B—it's towards the very end—what we are suggesting is that we should confederate at the upper echelons, as it were, in the management levels, so that we can leave the resources in the classroom, where they should belong, to provide equity and quality in our educational system. We have had this checked out constitutionally, and it does satisfy all of the constitutional requirements.

The fiscal policies of the federal government, the lack of tax reform both federally and provincially and the funding recommendations of the Royal Commission on Learning are aspects of funding which we believe undercut public services and hinder the ability of public boards to offer accessible, universal, quality education. Funding in education has had periodic reviews from time to time. Some recommendations have been accepted, others have not, and there has been a resulting patchwork approach to finance reform. We believe that the implementation of the Royal Commission on Learning recommendations would be another patch in that patchwork quilt of reform.

We would urge you to consider our recommendations. We would urge you to consider our confederated school board model, because we believe that is the way in which we can maintain our first-class public education system.

**Mr Malkowski:** Thank you for your presentation. You have raised many points and we're taking those into careful consideration, but talking about the federal transfer payments, as you know, the transfer payments have been decreasing, and that policy, the established programs financing, which was started under the previous federal Liberal government and then under the PC government, the amount of transfers under that program has been decreasing and we've suffered discrimination and we haven't gotten our fair share under those programs.

As you know, the situation we're now facing is that the federal government is advising us we may not get the transfer payments from the federal Liberal government. Also, we have 98 federal Liberal MPs who should be lobbying on our behalf, on behalf of the province. But I'm curious about your recommendation 9. That may be a good opportunity for those MPs to take a role and



lobby to get a reconsideration of the federal payments.

Now, can you tell me, what would you advise us? How can we best deal with the situation that if we aren't getting the federal dollars that are due to us, how can we keep and maintain the level of services and programs? Can you comment on what kind of impact there will be if the federal government doesn't continue to provide the transfer payments for 1995-96? How can we manage with the lack of money and how can we maintain the educational programs?

**Mr French:** That's quite a question. No, it's quite true, the impact of the federal transfer shortfalls has been very devastating and the shortfall accounts for approximately half of Ontario debts, of which a good share is the established programs financing. I think Ontario has done a little bit of educating about that, about the impact of the shortfall and the need for the federal government to be more equitable in its financing towards Ontario.

If the dollars do continue to shrink and if the tax transfers shrink, then post-secondary education will be immediately impacted. I think we've seen the forecast that tuition fees could double in a very short period of time. This would be a very heavy impact on educational opportunity, especially for low-income students, which we would have a problem with.

The cost of social assistance, even though the pressure's off a little bit as the economy goes up, is still very, very high in this area, and any help that the federal government could offer to Ontario, if it can get its fiscal house in order, would certainly ease the financial pressure here in Ontario and leave us more for the public programs like education.

**Mrs Haslam:** I looked at your confederated board—I've looked at it in a cursory way—and my question is, what kind of cooperation do you think you would receive from separate or French systems in putting forth this model? Are they aware of the financial constraints and do they agree that this is the way to go, to a confederated board?

**Ms Wright:** That's a very almost loaded question. To be honest with you, I do not—

**Mrs Haslam:** To be honest with you, I did not mean it to be loaded. It is simply, I wanted to know if this is such a good idea. If you're asking the ministry to come down with such an idea, then we have to know how hard it is, to say to other systems, "Is this a good idea?"

**Ms Wright:** I believe that it is a good idea but I believe that what happens here is you've had parallel systems running for such a long time that they have had their own bureaucracies that are developed and built. So it will take a certain amount of political will, discussion and negotiation between the systems to get to this idea, because many of them—for instance, who will be the director to be wanted? That's a reality. So, yes, they do have some problem with it, but I believe that if there is a financial squeeze, necessity might of itself put people into the position where they have to think laterally, have to broaden their vision, and we have to look at new solutions.

It is a difficult idea for them to accept, but I think we

will eventually come to recognizing that it is probably the only workable idea that we have.

**Mrs Haslam:** Efficiently.

**Ms Wright:** To work efficiently.

**The Chair:** Thank you. Ms Caplan.

**Mrs Caplan:** I think Mr Phillips has a question.

**The Chair:** Mr Phillips.

**Mrs Caplan:** I'd like just to put one on the record and then let him ask his question and they can answer them all at the same time—

**The Chair:** By all means.

**Mrs Caplan:** —because there's just one minute.

**The Chair:** You still have four minutes.

**Mrs Caplan:** Right. Do you understand the education funding formula as it exists today? Gerry? I'm trying to see if anybody does.

**Mr Phillips:** I'm sure they do. Just a question so I'm clear on the educational funding: My understanding is that the province has reduced its funding on education by it looks like roughly \$1 billion over the last three years. I'm just going by the spending on the budget here, from \$9.8 billion to \$8.7 billion. And in the document that we got from the government on federal transfers to Ontario on what's called EPF, which we've just been talking about, over the same period it went up by \$200 million. I'm just wondering what the explanation would be for why the province has cut \$1 billion out and the federal government looks like it's provided \$200 million more in transfers over that same period of time.

**Mr French:** No, absolutely. I think the transfers have grown to a certain extent, Mr Phillips, and part of that problem, I think, is that the transfers like the CAP transfer and so on—

**Mr Phillips:** This is just the EPF.

**Mr French:** Just the EPF, okay. The transfers have grown, but less than what might have been expected under the previous formula. So I don't think they are matching what might be considered to be the increased costs at the post-secondary level, and the impact of the transfers on the elementary and secondary is only indirect in that it freezes up revenue elsewhere.

**Mr Phillips:** I see. So the federal government doesn't provide any money for elementary or secondary.

**Mr French:** A little bit at the French level.

**Mr Phillips:** But just a small amount.

**Mr French:** That's right.

**Mr Phillips:** Most of the funding for education, elementary and secondary, in Ontario comes from the property tax or provincial revenues and not from the federal government. It doesn't have a role in this.

**Mr French:** Yes.

**Mr Phillips:** The other question I'd have for you is just how we should be viewing the implication of the end of the social contract and what advice the OSSTF would have for us in terms of how we should be thinking about what impact is going to occur at the end of the social contract and its fiscal implications, obviously.

**Ms Wright:** I've been in many negotiations as liaison to some boards which have gone on strike, which have done work to rule, and it is very clear that the boards are saying to us, "We want a mechanism to ensure permanent savings, because the government wants permanent savings from us."

When we look at our grid structure and when we look at the staffing, we would argue that they have already achieved permanent savings. If you have a permanent downsizing of 4.75%, you have in fact got permanent savings in staffing. That's one.

1500

Secondly, if a teacher is retiring at the top end—and our estimates tell us that we will expect to have a turnover of about 50% of our members within the next five years. That's because a lot of them came in 30 years ago when there was a shortage of teachers and they had to be rushed through teachers' college, as it were. They're reaching the point where they now have 30 years and they will be retiring. We expect that we may see an average of about 3,600 teachers retiring every year for the next five years, starting in about two or three years' time.

That being said, if you cost out the cost of a maximum salary of a teacher who is retiring and the cost of the replacement, that teacher who is coming in, the replacement teacher is coming in at about half of what the leaving teacher is. We believe that there is adequate funding generated by what we call rollover to pay for the increments, so that there should not be any need for boards to try to demand that.

For those savings that the boards have made over the last three years, we have paid for those by taking additional Rae days and actually bumping up class sizes and going above the 4.75% in the reduction of staffing, because you will hear, when these negotiations come in and the results come in, then say, "We have achieved 4.75% reduction plus one."

So the teachers are paying. Whatever it is in the collective agreements, we have bought it, we have bought the increment. It has not been a gift; it wasn't freely given. We have a mechanism in rollover to take permanent savings forward, so we do not see that there should be any increased costs placed upon us.

On your question about whether we understand the funding, generally we understand how the funding works. However, when you look at the specifics and you see how it goes, shifting from one year to the next, you begin to ask yourself what it is really up to.

**The Chair:** I just want to say most of Mr Carr's time has been used up. He's got two minutes. With that very lengthy answer, I just wanted to make that clear.

**Mr Carr:** Holy smokes, I graciously give it to whoever took it. I know you wanted to answer that, but I want to get into something else very quickly.

Thank you very much for your presentation today. I was hoping Liz Barkley would be here to ask her because she does a great job in terms of marketing, getting it out. I watched her on Focus Ontario. I take it it's the position of the OSSTF as of this morning, reading her quote, that

you will not be supporting the NDP in the next election.

**Ms Wright:** We have taken a position at our council and through our annual meetings that we will not support and we will not endorse any political party. We will go through it issue by issue, candidate by candidate.

**Mr Carr:** Good luck.

TORONTO INTERNATIONAL FILM FESTIVAL GROUP

**The Chair:** The next presentation is by the Toronto International Film Festival Group, if the representatives would please come forward.

**Ms Allison Bain:** My name is Allison Bain and I'm the director of government liaison with the Toronto International Film Festival Group. This is Michele Maheux, who is our director of marketing and communications. We're really pleased to be here today. We benefited from a call this morning about a cancellation and got the opportunity to appear here.

The province is one of our biggest supporters, so what we'd like to do today is just give you a little good news and show you what your support has meant to us and some of the successes that we've managed to bring into this province. Although we're a cultural organization, what we want to talk about is our economic contributions to the economy of this province.

**Ms Michele Maheux:** What you have in front of you that have just been handed out are copies of the economic impact study which was commissioned a year and a half ago and also copies of an information package or marketing kit. We'd like to take you through that kit today and just highlight for you some of the areas of interest that will help you know who we are and what we do.

The Toronto International Film Festival Group is comprised of three divisions.

**Ms Bain:** The first division of course is the festival, which is probably our most well known operation. It's a 10-day event which runs every September. We show about 300 films from 45 different countries every year. The Toronto festival is now acknowledged as the premier film festival in the world, second in the world only to Cannes. Of course, the big difference between ourselves and Cannes is that we are a public film festival. Last year more than a quarter of a million people attended our film festival.

**Ms Maheux:** Just to let you know and to add to what Allison just said, we are actually perceived by the industry to be number one in terms of all the film festivals that are operated in North America.

The second division within the group is Cinematheque Ontario. This is the provincial Cinematheque and is a year-round screening program or a year-round festival which takes place in one of the most stunning facilities for screening in all of Ontario, down at the Jackman Hall of the Art Gallery of Ontario. Annually, we show more than 400 films, two films a night, and that actually attracts thousands of members each year to our screenings.

**Ms Bain:** The Cinematheque also tours Ontario films internationally. Recently we've shown Ontario films in Greece, in Japan, in France and across the United States. If you were watching the news last week and the cover-



age of Robert Redford's Sundance festival, for the first time ever they featured a Canadian program. Those Canadian, mostly Ontario, films were selected at last year's festival.

**Ms Maheux:** That brings us to the third division within the group and that's the film reference library. This is a publicly accessible library located in our offices at the corner of Yonge and Carlton, which is extremely accessible. It is also the province's collection. We are the caretakers of this collection, which is an incredible array of film-related materials and in fact is now considered the pre-eminent resource centre for English-language Canadian-related film materials in the world. Students, researchers, international industry representatives and the international media all look to the film reference library when they're doing research on various film-related projects.

**Ms Bain:** All three of these divisions are supported by the province. The province provides approximately 20% of our base operating funding. So what do you get for that money? For every dollar the province invests in our organization, it's getting about \$30 back. Last year we had a direct economic impact of \$30 million.

**Ms Maheux:** Of that \$30-million annual impact, we count \$7.5 million in tourism impact alone. We consider this to be quite an impressive number, but we think we can do better. So in the last two years we have initiated a number of tourism initiatives. This year, as a matter of fact, we're partnering with an American company that's involved in wholesale travel and we're hoping to bring in a junket actually triple the size of last year's, which was 300 tourists. We're hoping to bring in more than 1,000. Now, these are directed, obvious efforts. We know there are tourists coming from all over the world in addition to those we're actually trying to bring in specifically through packages.

**Ms Bain:** There are two sides to the festival: one the public sees, which is the public screenings; the other whole half of the festival is all the industrial initiatives we do and all the support we give to the Ontario film industry. That includes things like the symposium. About 1,300 people attended last year, and that's Canada's largest business conference for film and television.

We also run something called the sales office. At a film festival there are essentially two types of people. There are people selling their films or attempting to, who are usually Canadian, and there are people buying films, usually international and American. We host all the international buyers through the sales office and facilitate their meeting the Ontario filmmakers. What this has resulted in, with over 1,200 film buyers last year, is an unprecedented level of sales for Ontario films.

It's been estimated within the economic impact study which you have that, in terms of replicating the industrial services the festival provides, without looking at the public screenings, it would take \$4.5 million for somebody to replicate what we do.

**Ms Maheux:** Also within the \$30-million impact is a media impact. Each year, annually, the festival hosts more than 600 journalists from around the world. Just to put that in perspective for you, two years ago when there

was a World Series, Toronto hosted only maybe 400 for the entire program.

**1510**

This contingent represents media outlets as diverse as the largest TV crews from Moscow, Los Angeles, the largest newspaper in the world from Japan, and actually has a larger media corps than probably any event of its kind of Canada that we know, and of course, we can't touch Cannes because they're in the thousands of press contingent. But our corps delivers more than 410 million impressions in the media worldwide, which represents \$3.3 million in media impact.

In the last two years alone, we have seen a three-page spread each year in Time International magazine. As an impact for tourism within the province and exposure for Toronto and the province, this is of course phenomenal and almost impossible to measure.

**Ms Bain:** The festival also provides 462 person-years of employment a year. Although we only have 24 full-time staff, we bring on about an additional 135 people each year. A lot of these people are students or recent graduates and many of them go on to full-time jobs in the cultural industries based on the contacts they make at the festival. On a year-round basis, we run internship programs, and actually currently in our offices we have three college interns to whom we're providing free training in corporate fund-raising and in marketing.

That's just a brief summary of all our contributions. The continuing partnership of the province in what we do is absolutely essential, and through some extremely difficult economic times the province has maintained its support of our organization. We work very closely with the Ministry of Culture, Tourism and Recreation and the Ontario Film Development Corp and they have been true champions.

That support is absolutely crucial. Although we have more than 100 corporate sponsors who bring in more than \$3 million in revenues for us and we have a quarter of a million public attendees and we have thousands of public members of the Cinematheque, it's impossible to do what we do without public support.

We just want to take this opportunity to thank you for your support to date and hope it continues and hope we continue our contributions.

**Ms Maheux:** That more or less sums up what were here to say to you today. Now we'd be happy to take any questions that you may have about our organization.

**Mrs Caplan:** The information you've provided us is extremely interesting. I'm pleased that you were able to come on such short notice with such a full brief.

As I understand it, you receive now just over \$1 million from the provincial government?

**Ms Bain:** We receive \$1.3 million. We receive \$400,000 for the festival. The remainder goes towards running the provincial Cinematheque and it's basically taking care of the provincial collection.

**Mrs Caplan:** The impact on our economy, in job creation as well as spinoff economic activity, is extremely impressive. I think that taking the opportunity to come before this committee and explain that to us is very, very

helpful. One of the concerns I have as we head into this election time, we know that there are no new dollars available, these are times of restraint and that there are going to be some advocating massive cutbacks in expenditures that could have negative impacts on the economy. I think you've made your case extremely well here at committee and I hope you have been heard.

The only question I really have is on some of the data you have at the back about the impressions that people have had about Ontario and about Toronto. I'm impressed with the questions you've asked and the fact that you've asked some of the tough questions also.

The survey is at the back, and I wondered if you'd just add a little bit, if you could, to some of the information you have about why you do this kind of surveying and how it influences the direction of the festival. Why would you do the kind of public opinion surveying that you're doing?

**Ms Bain:** One of the key motivations behind commissioning the economic impact study was because public funding at best is being maintained and we've actually taken fairly substantial cuts federally and municipally. We commissioned this study to sell ourselves. There's a whole section on consumer demographics: what you buy, what you sell. Actually, in the last four years, and we've had this for two and a bit now, we've managed to double our corporate sponsorship by utilizing the study.

The reason we asked the questions about impressions of Toronto was to help us get things like this American wholesaler who's going to sell our festival and this city abroad. They wanted that kind of information, so many of these questions were targeted for specific purposes, mostly corporate sponsorship.

**Mrs Caplan:** What would happen to your organization if your funding was cut by the 45% that we estimate it would be cut under the Harris plan for Ontario?

**Ms Bain:** Well, even though there were fairly minimal cuts last year, they directly resulted in a cut of services. We lost \$40,000 in one grant. We immediately had to cut the Prospective Canada suite, which is the people who help Canadian filmmakers package and market their films.

We're a very, very lean organization, so there really is no room to cut. Any time it comes down, we lose something. We try not to touch the public screenings because that generates \$1 million in revenue. What we have to cut are services that don't directly generate revenue and those are services that are used to support the Ontario film industry.

**Mrs Caplan:** Thank you very much. I found the information very helpful and very interesting and I think you are contributing to the economic wellbeing of Toronto, Metro Toronto and the province.

**Mr Kwinter:** I know this isn't directly related to you, but it is certainly peripheral to what you're doing: Toronto has been the third-largest film production centre in North America. Is that continuing, and what are the prospects for that particular sector of your industry?

**Ms Bain:** The Toronto film liaison office with the OFDC just put out its press release I think last week and

it was something like a 20% increase in production. They're now estimating about a \$600-million impact. It's growing and growing and growing.

**Ms Maheux:** This is the first year that the Ontario production community actually beat out the BC production community. It's been a huge battle back and forth between the provinces, and Ontario for the first time outstripped BC in production. That doesn't look like it's going away, it looks like it's going to actually increase.

**Ms Bain:** One of the reasons I think for that is programs like OFIP and programs that the province has brought in to support its film industry, so that now we're second only behind New York and LA.

**Mr Carr:** Thank you very much for a fine presentation. I'm glad you filled in. Following up on what Elinor Caplan said, she's right, there's going to be dramatic cuts. We've also said there will be cuts to business and funding to groups like yours.

We also are going to have massive tax cuts, the biggest tax cuts in the history of this province that will give us the lowest income tax rate. For an average household making \$50,000—whether that's one person making \$50,000 or two people making \$25,000, let's use \$50,000 as an example—we're going to give them \$4,000 back over the next three years. We believe that fine organizations like yours in the community will be able to get some of the funding from those people who will now have money in their pockets. They'll look at groups like yourself and say: "It's a terrific project. I'd like to donate."

The reason you come under pressure: as you know, we've got the health care system being hit, now deteriorating, and we've got longer waiting lists; we've got the education system that we can't pay for—and you may have been here for those presenters—and we have to make major change here in the province. What we're going to do is reverse and take it away from the governments, which have taken our money—the highest-taxed jurisdiction—and doled it out to various groups, and say to the people, "You decide where the money would go."

**1520**

Are you confident that the public will give you money if the money is taken away, changed from the government giving you grants to the public? You've put a great presentation together, the longest, most in-depth one we've seen yet, without a doubt. I know one of you is doing marketing, so you've done a terrific job. Going out to the public, are you confident that if people have more money in their pocket you'll be able to get some of those dollars back to your organization?

**Ms Bain:** I certainly understand your point. The problem we're facing at the festival is that over the last four years we've increased our box office by 50%. We've been around for 20 now, so that's a very significant increase. What happened to us last year is that we have run out of seats, so we can no longer, short of somebody building more theatres in the downtown core—the public, I feel extremely confident, would come, but we have nowhere to put them any more, so we can't raise any more box office revenue.



**Mr Carr:** What about donations in terms of people saying, "We'd do it"? Of course, in a lot of the arts there are donations from various people as well, not just people who've got a lot of money but average people giving donations outside the cost of tickets. Do you think people will think your services are good enough or provide enough service that they would be willing to do donations, just like a lot of other groups have to do to raise funds, outside of box office? Do you think you're well-respected enough that you could actually get some money through those fund-raising efforts?

**Ms Maheux:** We actually have a huge contingent of private supporters whom we call our gold patrons, and essentially I think they do what you're suggesting. Yes, they do get access to the festival. They give very far above and beyond the cost of a single ticket, and that circle seems to be widening to a huge degree. Again, as Alison has pointed out, access is obviously difficult when you're running out of seats.

But that's why we wanted to come here today and stress to you the importance of our industrial relationship with the province and the business relationship we bring to the partnership in culture that the province has been so stellar in supporting over the years, because we don't know to what degree we can continue going back to that same pool of individuals.

You're right, we probably should be looking to new individuals once this process begins, and hopefully they'll see the importance.

**Ms Bain:** But having said that, while we have doubled our corporate sponsorship in four years, there are certain segments of our organization, especially the caretaking and making publicly accessible the province's collection, which, to be frank, are probably never going to be sexy enough to sell to a corporate sponsor. I mean, that's a cultural, educational mandate, and I'm not sure you'll find a willingness in the corporate sector to take that on regardless of tax breaks.

**Mr Carr:** It might not be for corporations, but what about for individuals, who have an opportunity to go and like it? Historically, I guess, we've talked about people at the upper end of the income scale, with more money in their pockets. I'm thinking more of average people, who will have access to events like this and tickets and more money to be able to go.

You said tickets won't help, but what about just average patrons, average people, the hardworking guy at the Ford plant who's never thought of giving to your organization? Can we tap into that market because of the great job you're doing?

**Ms Bain:** I don't know. We'll see if the average man who works in a Ford plant wants to contribute to housing a film reference collection. We'll certainly have to look at that, but I think it's unrealistic to think that an organization like ours can exist without public support.

**Mr Carr:** Just one closing point: I think everybody recognizes the fine work you've done, and you've laid it out here. What we'll be proposing is that it will be up to the public to decide, and if you do the fine work they will give the money and support you. But at a time when

we're cutting back nurses' salaries, cutting back on services, it's going to be the public, not the people in this room, who are ultimately going to decide whether you survive. I certainly wish you both luck, and I'm glad you came here. You did an excellent presentation; you really did.

**Mr Sutherland:** Separating the two parts of what you do, the collection for the province part from the festival, I think some of my constituents would say about organizations like yours that maybe we should fund you for five or six years until you get up and established on your own etc. There's no doubt, with the information you've presented today, I certainly understand the argument of how, for the amount of money the government gives you, you provide a much greater economic impact back to the province. You indicated you're bigger than the Blue Jays, more media coverage than the Blue Jays get in the World Series.

**Mr Carr:** At least they work. The Blue Jays are on strike.

**Mr Sutherland:** Exactly. There you go. It's going very well.

What would you give me to say to my constituents who may make some comment like that, that you should only do it for five or six years, because then you could circulate that money back to other, smaller groups that want to start up other things in other cultural areas?

**Ms Bain:** For us, one of the problems in what we've seen recently is continual cuts in operating funding and then people attempting to replace that funding with projects. When you target project funding, it brings this incredible instability to the organization and you can't plan for the future. If someone gave us five years and then you're cut off, I'm not sure what that would do to our organization. What you'd end up with at best—you've already got a Famous Players and you've already got a Cineplex. That's not what we're about.

If you lose the public funding, you lose all the other things: You lose all the free public events, you lose all the industrial services. If that's the choice, I don't think people would make that choice, if you gave it to them, when they know what we accomplish in this province. It's not just going to the movies. There's this huge mechanism behind it.

**Mrs Haslam:** I couldn't agree more. I wouldn't be nervous about the Harris plan; I'd be scared to death of the Harris plan. I've been in that ministry and I know the work you do, and you have done an excellent job.

This has been coming over the last two or three years. You started out, as most cultural entities do, saying: "We're a cultural entity. We are the people who put into words and actions who we are and what we do as Canadians."

Through the hard times, I think that, like many other cultural entities, you realized that in order to prove what you did, you had to prove it economically. I'm so pleased to see this kind of presentation. When you think of what you can do with \$1.3 million from the government, it is amazing.

I want to talk about a couple of things. You talked

about other jobs in cultural industries, where people from your aspect go into the other cultural entities, and I wondered if you would elaborate a little bit on that. Also, you did a study on how to sell yourself. I know how hard that job is, and I wanted to know, is it getting easier out there to say to people: "We are an industry. We have a \$1-to-\$5 ratio for input into the economy"? Is it getting better to sell what you do?

Two questions, because I'm not sure I'll get time for a third one.

**Ms Maheux:** I'd like to speak to the question about the jobs, because the office that I run during the festival, with the help of an enormously talented staff, is the press and media office. From our contingent of part-timers, volunteer workers and contract employees, over the past six years, since I've been working within that office, three of them have gone on to management positions at the Ontario Film Development Corp. One of them is now working with the pre-eminent contract publicist in Canada. One of them just got hired by Disney last week. One of them just left, and we're heartbroken, to do my job at the San Francisco International Film Festival. And that speaks only to the marketing and publicity department.

That doesn't talk about some of the other administrative positions and people who have moved on to bigger and better and more permanent positions elsewhere in the community, for American, international and Canadian companies. So it's a pretty international achievement.

**Mrs Haslam:** They in turn sell us when they go into those particular areas.

**Ms Maheux:** Absolutely.

**Mrs Haslam:** Especially when you talk about your sales office at the film festival and how beneficial that is and the different types of people who come.

I think people think of films as being only the Robert Redford films, and it isn't. It's Canadian films. It's Atom Egoyan. It's industrial films. It's all those other little films that we produce in this area.

**Mr Hope:** Chuck Norris films.

**Mrs Haslam:** Chuck Norris? No, I don't think so. See what I have to deal with?

I know all the other aspects of film and the film industry that you deal with that are very important, and that brought me to the question about how hard it is to do your job, how hard it is sell what you do.

I'm going to slip my third question in. If you get a chance to, you might explain—in two seconds or less—to some of these people what the OFIP program is, because they might not understand that the money the government puts into an OFIP program or the Ontario Film Development Corp are again additional amounts of money that have phenomenal spinoffs within the economy.

**Ms Maheux:** I'll speak to the issue about selling ourselves, and then I'll turn it over to Allison to discuss quickly with you OFIP and OFDC.

After we did the Decima Research project and came up with our economic impact study and an actual profile of who our audience is, which pointed to the fact that we

are known by more than 82% of the population within Metro and its surrounding area, we took that to various corporate sponsors.

Essentially, what our development department has been working on for the past 18 months is projects with various companies, large ones we can't tell you about just yet, for a long-term funding commitment, to tell them and explain to them that we speak to their product buyers, that the people who come to the festival are opinion-makers, that they like to be the first on their block to own anything or do anything. We've now got a document we can take to these people to show them who we speak to, and the result has actually been quite remarkable. Allison pointed to some of the numbers in the last two years, and we think to a huge degree the study has helped us take that message out and tell them what they need to know.

**1530**

**Ms Bain:** OFIP and the work the OFDC does with the ministry is just part of this huge infrastructure that's developed around Ontario film. When I started at the festival eight years ago, you literally could not give a ticket away to a Canadian film. Last year it was the first program to sell out, because you've now got OFIP that helps make it, we help market it, and there are all these different partners that come together, which is really building an industry, which is why we're number two in the world, which is why our film industry, as a location, is number three in the world. Without some people noticing, we have become a world-class city for film production, and it brings a lot to the province.

**Mrs Haslam:** How much would you like in this budget? I think you've done good work on \$1.3 million. I just thought I'd give you the opportunity to say how much you would like to see in the budget.

**Ms Bain:** Thank you. We're hoping that at worst we maintain. We haven't had a raise in five years, so of course in real dollars we've lost funding and lost funding. We know the economic circumstances. We don't want to be fighting for the same dollars; they shouldn't be the same dollars. Every "developed" country in the world supports culture. Anyone's culture, especially, being so close to America, Canadian culture, needs the support of the government if it's going to remain competitive. It's been proven that, with the support of the government, we're not only competitive, we're number two in the world.

**The Chair:** On that comment, I'd like to thank the Toronto International Film Festival group for making a most interesting presentation this afternoon.

ONTARIO ARTS COUNCIL

**The Chair:** The next presentation this afternoon is by the Ontario Arts Council.

**Ms Gwenlyn Setterfield:** My name is Gwenlyn Setterfield. I'm the executive director of the Ontario Arts Council. With me are Mr Michael Woods, board member of the Ontario Arts Council and an accountant who lives in Toronto; Susan Cohen, director of arts discipline programs at the council; and Mr Daryl Novak, our director of administration.



**The Chair:** I understand you have a video for us to watch?

**Ms Setterfield:** We do. We have a very short clip at the end of our presentation.

We'd like to thank you again for allowing us to appear before the committee and to speak about some of the new developments this year and some of our achievements. I'd like to say at the beginning that our new chair, Mr Paul Hoffert, very much wanted to be here this afternoon, but he is away. However, you'll have an opportunity to see a little clip of him at the end.

Since we met last year, there have been some welcome developments that have recognized, in a public policy way, the importance of the arts in the new economy. There have been a number of reports that have acknowledged the role of the cultural industries and the not-for-profit arts in economic renewal. The ACCISS report in Ontario, the Advisory Committee on a Cultural Industries Sector Strategy, clearly identified this sector as a growth one and specifically acknowledged the place of the not-for-profits, where the talent and the creativity is developed and which in fact is an essential component for commercial success. You've just heard about the commercial end, and we too are involved in that kind of development.

Again, the report of the federal committee on foreign policy noted that a not insignificant fraction of Canada's cultural output is sold abroad. For example, SOCAN, which collects royalties in the music industry, is now collecting as much from abroad for the use of Canadian music as it does domestically for foreign product, and that is an amazing change over the last two or three years.

The committee noted that all of the evidence suggests that the promotion of a country's economic interest abroad depends in large part on the image it projects through its exports of cultural and educational products, and that committee recommended increased support to Canada's creative artists, whose development happens, of course, in the not-for-profit world.

The federal government recently announced a cultural human resources council as one of 18 sectoral councils to address training and development needs, again acknowledging that the cultural sector is a legitimate and growing part of Canada's economy. Study after study in cities and communities around the world are saying the same thing, and I think in Massachusetts they said, as they very often do plainly, simply and very eloquently, "Every economic development survey demonstrates that the quality of our educational and cultural institutions gives us the competitive edge in attracting new investment and retaining what we have."

Business writers, both here and abroad, refer to the social capital of communities that are achieving economic renewal, and in every case the arts are included as a vital component of that economic advantage.

OAC continues to work with the entire spectrum of the arts and culture sector. Last year the number of applicants was up by nearly 15%, and we assisted 1,900 individual artists and nearly 900 organizations in over 300 commu-

ities in this province, all with less than one tenth of 1% of the provincial budget, in a sector that contributes over \$10 billion to the GDP.

OAC supports everything from community choirs to publishers—and you'll hear a little bit more about that later—and in every case OAC support is only one component, and a small one, in the partnership that includes private corporate funding and earned revenues. Mr Carr may be particularly interested in this. On average, in the performing arts, for example, earned revenue is over 50% of the revenue of the companies, and in theatres it's around 75%, but for all performing arts companies government revenues in total average just over 15%—just over 15% for total government revenues altogether. So this is a very small amount of money.

Those small amounts—and the average grant that the OAC provides is just over \$2,000 to individual artists and about \$20,000 for organizations—provide the leverage for really amazing things to happen. For example, there's a small publisher in Dunvegan, in eastern Ontario, whose titles have gained a total of 29 awards and/or nominations. They are the publisher, for example, of Nino Ricci's books, and this publisher is selling Canadian books into several markets abroad. For a grant of just around \$21,000 from the Ontario Arts Council, the publisher wrote just the other day:

"OAC's continued support and cultural focus is essential to the existence of a small press in Canada. We are encouraged by the general acknowledgement of the economic role of the arts and culture sector, and the challenge for the future is to ensure the continuing core support to artists in arts organizations who will provide, we hope, the content for what is potentially the most potent opportunity for Canada and Ontario to distribute its cultural capital around the world," and that is of course via the information highway, "and that will only happen if we have continued commitment to basic arts creativity in this province."

Now Mr Woods is going to say something about some of the economics.

**Mr Michael Woods:** The Ontario government's current-year investment in the Ontario Arts Council amounts to just over \$4 for every person in Ontario. This small investment in the Ontario Arts Council pays off in a number of ways at several levels. It helps to maintain an arts and culture infrastructure that generates over 230,000 jobs in Ontario. It reaches over 750,000 students in classrooms all over Ontario.

The importance of the arts and arts education to the development of the new skills and attributes required to succeed in our complex world was stressed in a recent report of the Royal Commission on Learning. That report states that: "Students denied access to the arts are denied literacies and are impoverished as learners.... Any school system that fails to open up the spirit of the arts to its students is unworthy of public support."

At another level, support to the arts is paid back in taxes, increased tourism, talent resources that supply the commercial, for-profit cultural industries and exportable knowledge and products to world markets.

The second area of comment I'd like to make is concerning the management in the well-managed arts sectors. As mentioned, I'm an accountant in my real life and have a number of arts organizations as clients. In my experience, they're very nimble in adapting to changing circumstances. Only a small number of arts organizations have closed their doors during the recession. Good management, creative development of partnerships, developing alternate income sources and just plain cost cutting enabled arts organizations to serve their audiences during the past years.

It's also a growth industry. Between 1987 and 1991, at a time when other industries saw their sales drop, revenues in the cultural industries in Ontario increased by over 40%.

Finally, I'd like to make a plea that the arts needs the maintenance of the current level of financial support from the Ontario government. The 1991 census figures show that the average income of artists is just under \$15,000, compared with \$26,000 for the experienced Ontario labour force as a whole. Those are my comments.

**1540**

**Ms Susan Cohen:** Ladies and gentlemen, what I'd like to do is to give you some specific examples of the partnerships that the OAC engages in with members of the community, whether they are in the public or the private sector, whether they are businesses, governments, community members or other artists. Our support may not be large in scale, but frequently, as Gwenlyn and Michael Woods have described, it provides leverage to other partners so that artists and arts organizations can build their ideas, their support and extend the marketplace.

I want to draw your attention to three programs of the council. Each of them is different, but they all illustrate the leverage that we've talked about. One of these programs is run by our visual arts, crafts and design office to provide assistance to individual visual artists with exhibition costs. The average grant is \$500. Last year we gave out some 550 grants.

The program operates with 54 local partners; those are art galleries and organizations that cover the province in communities as large as Metro Toronto and as small as Atikokan. The OAC holds an account at our offices for each of these partners. Artists apply to their local gallery for assistance with the costs of framing, transportation, matting. They're for exhibitions within their community or elsewhere. The local community decides to support an artist based on its own criteria, its own local concerns, and then we cut the cheque. It is simple, it is cheap, it is community controlled and it is accessible to local artists throughout their careers.

Deanna Austerberry, an artist from the Sault, got \$1,000 from the Art Gallery of Algoma towards an exhibition in San Miguel, Mexico. Catherine Cribbs from South Porcupine got \$500 from the Art Gallery of Timmins for an exhibition in Kirkland Lake.

These small amounts lever other support. Exhibitors, whether they are traditional venues, such as art galleries, or untraditional venues, such as restaurants, bars and shopping malls, pay for artists' fees, they pay for insur-

ance, catalogues and promotion, and they extend the marketplace for all our Ontario artists.

Rita Anne Piquet from Scarborough received \$140 from the art gallery in Whitby for her participation in the annual Boutique Jacob contemporary art show. You may know this particular fashion outlet. Every year this fashion store, with stores across the country, displays selected Canadian works throughout its outlets. The Boutique Jacob insures the works, promotes the artist, hires the curator to develop the catalogue, promotes the catalogue and the artist in all its stores and intervenes with the public for education and awareness. That's what a \$140 grant can do.

I'd like to tell you about another program. It's our music office, which provides assistance to Opera Atelier, a baroque opera and dance company. After eight years this company has reached an international pinnacle. It has been invited to be part of the Houston Grand Opera's 1995 season and the Opéra Comique in Paris. This year it got a commitment of \$110,000 from the Paribas Foundation. This is an offshoot of a French bank and it marks the foundation's first-ever sponsorship of a group outside France. The directors of Opera Atelier have acknowledged they couldn't do this without the ongoing support of the Ontario Arts Council.

Finally, I'd like to tell you about the miners' memorial in Kirkland Lake. It's a project of two artists from Charlton, Ontario, that has been assisted for four years through the Ontario Arts Council's Artists and the Workplace program. It was originally an idea of the United Steelworkers of America and it is a tribute to the miners of Kirkland Lake, a 40-ton granite, steel and bronze sculpture unveiled last summer.

A grant of \$30,000 in total from the Ontario Arts Council amounted to less than a quarter of the total cost of the project, but our money, which was first given in 1990, levered and then acted in concert with businesses, professional engineers, the mining companies, the ministry of northern affairs, community concerts, nevedas, bingos, the chamber of commerce and the Rotary club. Everybody helped out. There were donations of dollars, but equally important was free studio space, materials, equipment and expertise. The miners posed for the sculpture and the local Macassa mine supplied the miners to work on the site and the installations for almost two weeks.

The artists put it very well. They said to us: "Six years ago we were absolutely unknown in Kirkland Lake. But, you know, on opening day, the 75th birthday of Kirkland Lake, we rode at the head of the parade behind the mayor."

Ladies and gentlemen, I think that gives you some real demonstration of how the artists, the community, public and private partners, corporations and businesses are all working together to create enduring works of the human spirit.

**Ms Setterfield:** Just a couple of other points. Last year Mr Phillips asked us what we were doing—we're from the Ontario Arts Council.

**Mr Phillips:** Yes, I know.



**Ms Setterfield:** You asked us specifically last year what we were doing to find other sources of income and to streamline our operations, and I want to assure you that indeed we have done that. You will see a clip about our annual trade show, Contact, and it says in that clip that we spent \$68,000 on it. We in fact are spending half that now and we're on the way to making this a cost-recovery activity. We've streamlined our application process, we're combining programs and we hope to undertake a study to determine how we can best use new technologies to expand and streamline the whole application process, although we may need a little financial help to do that study.

Our very best news this year was the announcement of a major gift to the Ontario Arts Council Foundation. The Lieutenant Governor, the Honourable Henry Jackman, made a personal gift of \$1 million to establish an endowment at our foundation. That will provide three awards annually to arts organizations that have demonstrated strong community support and private sector donations to their organizations. These awards are designed to encourage the private sector to get involved with their community arts organizations. So we are in fact working to help ourselves.

With that, we'd like to show you just a little short clip, and that's the end of our presentation.

*Video presentation.*

1553

**The Chair:** Through modern technology, we've seen a very interesting video, and I thank you for that. We have a little more than two minutes per caucus, and we'll start with Mr Carr.

**Mr Carr:** Thank you very much for your presentation again this year. I appreciate it very much. I guess, Michael, you talked about the amount of the tax that goes to you is the equivalent of about \$4 per person, I think you said.

**Mr Woods:** That's right.

**Mr Carr:** I don't want to get into a big debate here, because this isn't what we're here for. I think you understand the problem the Ontario government is facing. The debt for every man, woman and child provincially is \$9,000, and that's provincial. Federally, it's \$15,000. So combined, every man, woman and child in this province owes \$24,000. I'm married with three kids. What we owe as a family is \$120,000, which is more than our mortgage. You alluded to me with the question. That's why I said it.

Nobody but nobody around this table does not see the good work that you do, but I think you should understand the pressures are there, and I will say this: You should be very, very leery of any politician who sits and says that you won't be cut before the election. At least with ourselves—and I may be not the typical politician, liking to tell the same thing before the election, during the election and after the election, but I'd be very, very leery of politicians who say, "Well, don't worry, you won't be one of the ones who will be cut," because I want you to appreciate the fiscal situation is horrendous in this province.

I wish you luck. I think with the calibre of people we see coming forward like yourself, the calibre of the presentations that you put forward, I sincerely have the confidence that regardless of what happens, which of either of the other two parties gets in, groups like yourself are going to survive. And it's not because of governments; it's going to be because of the good people like yourself.

So I want to thank you. We look forward to it. We don't have much time to give you, but we sincerely appreciate it. I would love to spend the time jumping all over the government and so on, but I think we have to work together, because our fiscal situation is horrendous, and at the end of the day, I honestly, truly believe, with good people like yourself, we still are going to be able to say that we have one of the finest arts councils in all the world. So good luck.

**Mr Jamison:** Thank you for your presentation and, again, yours is, if I might use the word, an "industry" that sometimes is undervalued within our community and within our society and is really a cultural industry that's so important to the wellbeing and fabric of a number of communities. I just want to say that communities like Stratford, for an example, the Shaw Festival, which is something we wouldn't want to lose, and the art area—bringing the Barnes collection to Toronto did wonderful things. The economic spinoff to those communities is tangible, to say the least, and the economy, the flow of dollars and the tourist aspect of things go far beyond what has been said here today about your importance to our economy.

I must say this to you, that you've just heard about the physical problems, the economy as it exists, but I believe you contribute to our economy. I want to let you know that.

The thing that concerns me is, we have a party in this province that's basically, whenever they speak to people—and it's the first time I've heard this different approach which concerns me even more—when they speak to business or when they speak to the farmers in the province or whatever, say, "Well, we have to make the cuts but, of course, we may not be talking about you." That concerns me even more, because those cuts will have to come from areas that are maybe not as recognized as being an integral part of the economy as the arts, and it's something that I think once people are more educated about, really they would quickly recognize how your industry really enhances our quality of life also in this province.

I would say to you that there are some serious economic realities that are out there but to simply cut you loose, as I believe some people in this room would do, would be a grave, grave error. I know you've done some streamlining yourself, but at the same time, do you not think that it would take governments working much closer with you to ensure that the quality of our culture isn't in jeopardy along the way?

**Ms Setterfield:** Yes, I think that's right. I think we do need some really close and careful discussion with all parties, all governments, to make the case to look at those areas where there are gains to be made, where we can

make some partnerships, where it might not mean new money and where the arts sector may have access to certain kinds of money that they haven't had before, small business support and so on, that hasn't been there before for our sector. I think there are a lot of things to be done, yes.

**Mr Kwinter:** I'm sure you know that you have in our caucus a kindred soul and I'm sure you know I'm a graduate of the Ontario College of Art and a former vice-president of the Ontario College of Art. Really, I'd like to just pursue and get on the record so there's no mistake in the signal that is sent to the arts community.

I've been listening to our colleague in the Progressive Conservative caucus and I haven't heard a more naïve or simplistic response: "Don't worry. As long as you people are good and you're going out and doing your job, people will support you."

**Mr Carr:** What are you going to do for them, Monte? Are you going to give them the money? Tell them what you're going to do.

**Mr Kwinter:** What he's saying is in fact: "You're on your own. Go out. You're good people. You will go out and you will get the confidence of the people. They will support you. We're going to give them money and instead of them paying down their mortgage, instead of them paying down their credit cards, instead of them paying down their debts, they're going to give it to you." To me, this is plain absurd. I'd like to get your comment on it.

**Mr Carr:** What are you going to do, Monte?

1600

*Interjections.*

**The Chair:** Order.

**Mr Carr:** Tell them what you're going to do for them, before the election.

**The Chair:** Order.

**Ms Setterfield:** I have no wish and no intention to wade into a political argument here.

**Mr Carr:** I haven't either; he started it.

**Ms Setterfield:** I would just like to refer back to the figures that I put forward originally. On average, the organizations are getting, from government support, in total about 15%. We're talking here about the performing arts organizations. About 15% of their revenue comes from government, just a little over, in total. So all the rest of it they are raising themselves.

The organizations have become very mean and lean in terms of their fund-raising and their expenditures, and I would like to remind all of the members that this has been going on in the arts community since the very early 1980s. The arts did not really enjoy the kind of huge influx of money that other sectors of the community did through the 1980s.

We can show you many examples of companies that have been consistently cutting the numbers of dancers, the numbers of actors, the numbers of performers and so on. The National Ballet is a perfect example. That has been continually shrinking since the early 1980s. They've been expanding their pool of donors, their pool of

corporate sponsors, but also there is not a level playing field for major donors in this province.

The universities now have foundations which enjoy crown status and therefore can give 100% write-offs to very large donors. This is not available to the arts, not even through our foundation. Therefore, if you're talking about the kinds of half-million or million dollar donations that are available in the US, for example, they are not attracted to the arts. If the donor is a wealthy person and can give that kind of money, they are more likely to give it to their university through the crown foundation. So we're trying. We would like a level playing field.

We have absolutely expert fund-raisers. The other thing is that most of our arts organizations hire fund-raisers and they're able to pay maybe \$20,000 or \$25,000 a year for a fund-raiser. They train them. They become super fund-raisers, and the universities and the hospitals and everybody else who's into fund-raising now snatch them up and pay three, four, five and six times that amount and we are just a training ground for development of marketers throughout the economy.

**The Chair:** I'd like to thank the Ontario Arts Council for making this presentation before the committee this afternoon.

**Ms Setterfield:** Thank you, Mr Chairman, and everybody on the committee.

**Mr Hope:** On a point of order, Mr Chair, before you call the next presentation: Isn't the yelling supposed to go this way, back and forth, versus the opposition sides?

**The Chair:** With respect to your point of order, Mr Hope, I would just like to remind the committee members that interjections are out of order. Yes, we as members of various parties do have various opinions and we don't always agree. However, interjections are out of order and the Chair would appreciate it if they were kept to a minimum.

#### FEDERATION OF WOMEN TEACHERS' ASSOCIATIONS OF ONTARIO

**The Chair:** The next presentation this afternoon is by the Federation of Women Teachers' Associations of Ontario, Ms Bev Gardner, president.

**Ms Bev Gardner:** I will try to take just a little bit less than the 30 minutes because I have an important meeting with Mr Cooke at 4:30. Thank you for receiving us today. As you can appreciate, the teachers' federations are somewhat preoccupied these days in responding to the Royal Commission on Learning's recommendations and anticipating the government's reaction to those. We usually bring with us a cast of thousands, but I'm on my own today.

As you know, the Federation of Women Teachers' Associations of Ontario represents about 41,000 teachers who teach in the public schools in the elementary system. Our concerns in our brief: Rather than dealing with how the budget should be spent in terms of specific allocations or what the government might do in terms of revenue collection, we would like to, as we have in the past, remind the committee and the members of the importance of young children in this society and, in particular, our role with young children in the elementary schools.



I'm not going to read through the entire brief. I will summarize in my own words and indicate to you what page I'm on as we go through, for your reference.

Every day the teachers in the elementary schools in this province see the effect of children living in poverty and in increasingly worse conditions, particularly in some of the urban areas over the last little while where the recession has had a major impact. We know that for many children the success that they have in school is determined long before they come to school by the conditions that they live in the first three and four years of their lives. We encourage the members of this committee and the members of the government to remember that a society is as valuable and as valued as it values its children.

We think, and we have thought in the past, that public expenditures for children have not been a major priority in this country and indeed in North America and, in particular, for us in this province. We hope that the Royal Commission on Learning's focus on young children will also be reflected in the budget.

Moving to the issue on the second page in terms of educational funding, rather than say what the funding ought to be, we would like to point out one more time that there's been a long-standing disparity in the province between the funding available for elementary education and for secondary education.

We've never understood the rationale for the lower per-pupil spending at the elementary level and urge that this is one of the priorities that gets addressed when we look at financing of education as this budget will direct it in the future. We can't say, on one hand, that children are our best resource and our most valuable resource if, on the other hand, we're not prepared to put the money into those early years.

The Royal Commission on Learning, as you know, has provided better support in its recommendations for those who have guaranteed rights under the Constitution, particularly the francophones and the Roman Catholics, and we applaud these goals.

We wonder, however, where the money is going to come from in terms of enhancing the boards that have been assessment-poor. The pie is too small already, and if it's the same pie that gets split up differently, then obviously the public schools that have X number of dollars, if that's the simplistic translation, will have fewer, and that just doesn't sit.

We don't think the kind of educational financing that was in place in 1990 when the government promised the restoration of 60% from the province is the model that should be followed, but however those dollars get struck, we think that target of 60% from the provincial government is one that should be paid attention to.

The Ontario government has done a lot for early childhood and primary education through the mid-1980s, and we commend the current government for mandating junior kindergarten. We look forward to the recommendations and the minister's announcement on bringing even younger children into school and we encourage the government to continue to pay attention to younger

children, not only in the traditional education setting but in all areas that will bring them into education better prepared.

Children need access to the teacher's time, and lower class size is one of the ways of addressing this. We know that classroom teachers who can provide true child-centred programs—and what we mean by that is increased opportunity for the teacher and the child to interact in a meaningful way. Then the education for those children will be enhanced.

#### 1610

We would urge the provincial government to ensure that school boards maintain those low class sizes in the primary grades as they face the kinds of fiscal pressures that we all know. We can't endorse seeing yet again a good thing being jeopardized because there are only so many dollars and what was good a few years ago in bringing down class sizes now has to be expendable. It simply doesn't make sense, and we ask that the government ensure that school boards don't find a way out of their financial crisis by reverting to very large class sizes.

The Royal Commission on Learning also makes some statements about every child having an opportunity to develop to his or her own potential. We are continually dismayed when we look at statistics from around the world and see that Canada has the second-highest rate of child poverty in the industrialized world, and particularly dismayed with the report that came out a few months ago that showed how different countries were reacting to the recession in terms of their expenditures for the young child.

Canada was pretty much alone in terms of reducing that overall expenditure in the years of recession, where other countries equally hit by the recession managed to at least maintain the amount of money they were spending on young children or increase it.

We would also like to direct your attention to the government's own research in this area. The Premier's Council on Health, Well-being and Social Justice issued its report, *Yours, Mine and Ours*, in May 1994.

The report outlined what Ontario needed to do to improve the health and wellbeing of children and youth and many of those recommendations are still sitting unreacted.

The standing committee on social development of the Legislative Assembly in July 1994, in its report *Children at Risk*, called for a new vision in children's services. This vision calls for services that are preventive and integrated. The Royal Commission on Learning I believe picks up on some of those, and we're hopeful that we will see those incorporated in the government's announcements on three-year-olds in school and what that might mean in the broader context.

We ask you to consider those recommendations seriously in terms of budget allocations. We also ask you to consider that spending on social programs is not a drag on economic growth, that the World Competitiveness Report produced by a private Swiss organization ranked Denmark, Netherlands and Sweden in the top 10 in its ranking of economic strength and competitiveness. All

three of these countries have a high level of social spending. We believe that social spending is something that has to be attended to and can be in the context of our tough economic times.

Finally, we leave you with some thoughts on the social contract and its ongoing impact on schools and on teachers. Wherever we turn we hear concerns raised about unemployment, and this government has prided itself on the employment it has created and has stated that this continues to be a major priority to be recognized in this upcoming budget, yet the social contract determined that jobs would be lost in the broader public sector. The government justified the action as necessary to deal with the debt and has quite proudly stated that very few layoffs have resulted from the social contract, but we fear that we haven't seen the worst of that yet.

Much of the downsizing has occurred through attrition, but this still represents total job loss. The job loss for young adults, especially women between the ages of 25 and 34 in Metro Toronto, has increased by more than 30% since 1992. Although that's not directly in the context of the school system, many of these are young mothers who have children, who are impacted by their employment and then directly relate to the kind of services the school needs to be providing.

Government promised us when things were getting better that the social contract and its limitations would no longer be necessary. We're hearing that the economic situation has greatly improved, so we expect that we would see some change in the limitations and would recommend that this legislation be withdrawn.

In conclusion—and I'm looking now at page 9—what we really want to say to you in our very brief presentation today is encapsulated in the quote from Yours, Mine and Ours in the middle of that page, which I will not read to you, but it does reiterate the belief of the women teachers in elementary schools in this province that it is the children, as well as our members, that we represent and that we care about.

We ask that this government act now to ensure a more egalitarian society. We are thoroughly convinced that the road to such a society is not through reduced spending but through a more equitable distribution of the wealth. Societies that have a smaller gap between the top and the bottom income levels have a healthier, more productive population, with lower poverty rates, and we beseech you to act now, before it's too late.

If I may conclude with just a couple of personal notes, in the last two months I've had an opportunity to meet with and visit educators in Costa Rica representing a number of Central American countries and, most recently, in Nepal. It reminded me of how important and how first-class our education system is in this province and the kind of commitment that Ontario has made to education and to young people over the years.

I say that because what I see in Central America is a real threat to public education as public education. Part of the beginning signs of that sort of threat is that there isn't enough money, we can't do it and we find other ways of achieving it. We're not a Third World country and I have no fear that we are going to be in the situation they are,

but the privatization of education didn't happen overnight in Central America. I leave that as a concluding personal thought.

**The Chair:** You indicated that you wanted to meet with the minister at 4:30. I'm asking you how much time you would like. We have about 10 minutes until 4:30. Would you like to take seven minutes, eight minutes?

**Ms Gardner:** Enough minutes that I can run across the way, six or seven minutes. I'd like to be out of here just before 4:30.

**The Chair:** Okay, so we'll keep the questions and comments to two minutes per caucus.

**Mr Sutherland:** The question I wanted to ask you of course is, we've had in many of the different education groups—teachers' groups, school boards—during the last two days. Everyone talks about education finance reform, but it would seem to me there isn't a consensus among all the stakeholders there as to how we do education finance reform to ensure that there is some equitable distribution of the funds, clearly, across the province. Do you have any quick thoughts on how we can get to that consensus?

**Ms Gardner:** No.

**Mr Sutherland:** Okay. That's it for me.

**Ms Gardner:** If I may, everybody recognizes that this is not an easy issue. The fact that there are rich assessment boards and poor assessment boards and the bulk of the poor assessment boards are in the separate school system is a reality. That reality, we think, is untenable. It does not allow for equity of educational opportunity across the province.

1620

Obviously, the simplistic answer isn't to take money from the public school system and enhance the poor assessment boards in the separate school system, but we believe that there is money in this province. As much as we are in a difficult financial situation, this is still a very rich province in terms of the resources that are available and there should be sufficient resources in a province like this to provide a good-quality education system for all kids.

**Mr Hope:** I'm just intrigued by the comments dealing with poverty and the issue of children, because I have some of your own members in my riding and they fall into the Mike Harris trap of cutting welfare and workfare and all that stuff. Making a presentation on behalf of your members who also live in my riding and trying to deal with this whole issue of funding—according to your report, you're asking for more funding dealing with child poverty and education. At the same time, I'm also hearing from the members who are in my riding, who are affiliates to your association, falling into the Mike Harris trap saying, "Chop, chop, chop." I guess I'm having difficulty balancing the provincial end of things to the local end of it, because they are the ultimate taxpayer.

**Ms Gardner:** When you say the members of our federation are making these statements, they're making those statements as public citizens who are taxpayers and they're establishing their own priorities, as we all do.

I'm speaking to you as the spokesperson of the



federation whose policy it is on behalf of our 41,000 members to acknowledge the situation that children are in in this province, and our members see them first hand. Some of our members choose to have political views that lead them to a different kind of solution to the problem. That's their view as a private citizen.

**Mr Phillips:** I'll try and give you a fairly brief question just because I'm conscious you're going to have to leave very shortly to get to your other meeting. Have you any advice for us on the implications of the end of the social contract and just what things financially we should be thinking about and any advice you've got for the finance committee, because you know how each of the boards that you're dealing with have been dealing with it and what the implications might be for us.

**Ms Gardner:** I think the social contract legislation presented all of us with a very difficult challenge. The fact that the legislation is now being played out board by board is only increasing the kind of inequity, and when we get to the end of the social contract, there's going to be such a disparity around the province about how it has impacted teachers who are doing the same job with the same qualifications and experience. It's going to be extremely difficult. It's a frustrating situation for us right now.

In terms of coming out of it, I think the members of the House have to pay real attention to the fact that this has created some haves and have-nots in terms of the members of the teaching profession through no fault of their own except that because of age and circumstance and the particular part of the province they live in, they were impacted differently. You have a challenge ahead of you in terms of how you make something that was unfair to begin with come out more fair in the end. And it's going to cost some money.

**Mr Carr:** Thank you very much for your presentation and good luck with Mr Cooke. I'll be very brief, too. Just quickly on Randy's point, what we've done is earmarked \$400 million, even with a \$6-billion cut, for children's mental health services. A teacher would know that we probably have 10,000 kids who are on the waiting list and a tremendous tragedy in that area that's falling on the teachers.

But I wanted to ask you on the social contract, as well, and you may want to ask Mr Cooke, when the Treasurer sat in your very seat on Monday he said the money isn't coming back in the system. As you know, we've got the United Senior Citizens of Ontario coming. In my area, if any property taxes go up, we're going to have seniors out on the street, because, as you know, property taxes are killing seniors in particular.

What is your membership expecting when the social contract ends?

**Ms Gardner:** Well, we know that money isn't coming back into the system. The 4.75% reduction that the social contract asks us for is a substantial amount of money, and that money isn't coming back into the system.

The dilemma that has been created is, because the legislation restricts the manner in which school boards, or

maybe allows the manner in which school boards have interpreted it for our individual members, it's different board by board. Again, it's based on the rich assessment boards have been able to handle things in a way that probably by the end of it there will be some degree of fairness and the gap will be closed, but the poor assessment boards, which are already stripped, which have no flexibility and no place to go, can't.

We've got a situation where we talk about equity and excellence in education where we have teachers who have no way to recover equity in terms of their colleagues, and that's untenable. It just doesn't go with the philosophical statement that we're going to provide opportunities on the same basis for everybody. If we're going to do it for kids, we'd better be doing it for the teachers who teach those kids.

#### UNITED SENIOR CITIZENS OF ONTARIO

**The Chair:** The next presentation this afternoon is by the United Senior Citizens of Ontario.

**Mr Al Smith:** Thank you very much, Mr Chairman. My name is Al Smith and I'm the first vice-president of the United Senior Citizens. Jane Leitch is our past president and whom you probably know because she was mixed up in the coalition—she was chairman—for long-term care. Wally Connon is an executive board member of the USCO. I'd like to thank you for this opportunity to present this brief paper for your consideration.

The United Senior Citizens of Ontario represents thousands of seniors in the province through membership in over 1,200 clubs. Each of you has been a recipient of our annual brief, sent to all members of the provincial government. Premier Bob Rae has acknowledged receipt. We are still waiting for a reply from the Premier and the leaders of the other two parties, as requested. I hope we get this before we go to press with information to our members.

Seniors in our province have been devastated by the continual attacks by our federal government through increased taxes, clawbacks, the GST and other forms of taxation which drastically reduce their ability to maintain a decent standard of living. It is estimated that approximately 47% of the seniors in the province are living below the poverty level. It is obvious, therefore, we cannot tolerate further inroads in our diminished income.

We applaud the government for establishing the long-term-care committees under the jurisdiction of the district health councils and the passing of Bill 173 to form the multiservice agencies. This will provide a continuum of health services for seniors and the handicapped and will generate considerable savings.

The Premier, in a recent television program, would not commit himself to forecasting any tax moves until Mr Martin brought down his budget on February 28. However, there are some irritating factors which should be considered.

Many seniors who have automobiles not only use them for their own necessities but provide transportation for other seniors and handicapped who cannot drive shopping or banking, visiting to the doctor or the dentist or other essential purposes. New insurance regulations imposed by

the government will in the space of two years increase the premiums by up to 20%. To add a 5% provincial sales tax to their automobile insurance is a certain way to reduce their desire to provide volunteer service of any kind whenever the use of their car is required.

**1630**

Below the border, many states are providing tax concessions for expenses incurred while doing volunteer work. The 20% increase in premiums, coupled with the regressive tax, may well cause seniors who volunteer to no longer do so.

Seniors consider it essential that adequate education is available to every youngster. Since education funding is frozen in 1995, the implementation of junior kindergarten and the increase in the number of new students will throw a heavy cost burden on the local boards. This will result in an inevitable increase in local taxes. We strongly urge that this program be postponed until such time as the economy improves.

The imposition of fair market value in establishing property assessments has disturbed many seniors. In order to file a complaint, it is now necessary to pay a fee of \$20 payable to the Minister of Finance. There have been so many inequities in establishing the assessment and many seniors have been so angered that in some areas they are demanding the policy be rescinded or amended. The complaint fee is being considered as none other than a cash cow for the government.

Many seniors have worked all their lives and in their latter years have contributed to the Canada pension plan to provide a financial income for their retirement. This has been payable at age 65. We cannot help but be angered when our MPPs are eligible to receive a retirement pension of approximately 25% of their income after a five-year term. They contribute about 10% of their income. When their age and years of service add up to 55 years, they are eligible for a full pension. There is some evidence of double-dipping when an MPP is defeated and goes on pension and is hired by the government in another capacity. We believe that all members of Parliament should be adequately paid. However, they should be comparable to all other employed people and receive their pension when retiring as a senior at age 65.

Finally, our justice system is sadly in need of an overhaul. In spite of the fact that funds are now available to assist the victim through a 5% surcharge on most fines, the victim is rarely compensated for the time lost or the suffering. The major cost, however, is due to the lengthy, prolonged period of trial. The court costs must be tremendous. As the trial lengthens, the cost of lawyers, judges, clerks, witnesses and juries soars at the expense of the taxpayer. Therefore, we strongly suggest that a study be made to bring in legislation to reduce this lengthy trial process. The result would save millions of dollars of taxpayers' money.

Once more, we would like to express our appreciation for this opportunity to present our views to this committee. Thank you, and if there are any questions, we'll be glad to try to answer them for you.

**Mr Kwinter:** Thank you very much for your presen-

tation. I always enjoy hearing it as I get closer and closer to being eligible to become a member of your group.

I should tell you that just by coincidence, and we didn't see this particular presentation beforehand, our leader announced today that if we were to form the government, we would rescind the 5% sales tax on automobile premiums. We sort of anticipated the concerns and, as I say, we made that announcement today.

**Mr Smith:** I would appreciate, just to answer you, if you would suggest to your leader that we would be very interested in having her comments to our brief in writing. We've asked them so we can put it out in our Voice, which is our magazine to our people, so we'll know where everybody stands. I would extend the opportunity to the other parties too.

**Mr Kwinter:** One of the issues that seemed to be a hot button for seniors, which I don't see in your brief, is the idea of out-of-country expenses on the medical plan being reduced from the \$400 to \$100. Is that an issue that has gone away or that you're not as concerned with?

**Mr Smith:** No. This was an issue that was hotly debated at our convention in Ottawa last year. There were mixed feelings on it and I will say that, as you are probably aware, any motions that are passed at our convention become our mandate. This one did not pass, probably because I think a lot of people have the attitude that everybody who can go south has got money. I know a lot of people who go south who live in trailer parks. They do not have money. It's just a style of life. Where you and I might live in a \$300,000 home and enjoy it, they live in a trailer park and are able to go south.

I also know from talking to a lot in the medical groups, doctors and that tell me that a lot of these people, if they stayed here, would probably cost the health system a heck of a lot more money staying up here than they would by being south because being south keeps them out of trouble. I know people who have emphysema who would be confined to their homes or this sort of thing by staying in this country in the cold weather.

**Mr Kwinter:** Notwithstanding that you didn't get a mandate to pursue it, is the legal challenge still going on?

**Mr Smith:** I believe it is. It wasn't our organization that was making the legal challenge. I think it's the Grey Panthers, and I believe they're still going ahead with it.

**Mrs Caplan:** You refer to regulations that are going to increase seniors' costs by up to 20%. Which regulations were you referring to, just to get it clear on the record?

**Mrs Jane Leitch:** Our adviser who has helped us with it, John Atto, has estimated that this is what it will probably cost in two years.

**Mrs Caplan:** Was he specific as to which regulations?

**Mrs Leitch:** No, I'm sorry, I can't answer that.

**Mrs Caplan:** That would be helpful, and if you would like to give us a listing and send it in, it will become part of the record. But I would be interested in knowing specifically what new regulations are having that effect on seniors.



**Mrs Leitch:** These are ones that have come in through the insurance people and I can't—

**Mr Smith:** We can try to get that for you.

**Mrs Caplan:** Thank you.

**Mr Kwinter:** If I could just make another comment in response to one of your concerns about MPPs' pensions, you should be aware that I think all parties have put forward a proposal to change that and I would assume—I would hope—that some time before the call of the next election that will be done both at the provincial and the federal levels. Certainly there are talks at the federal level that that will be done very, very shortly, and I would expect and would hope that some time before the next election that will also be implemented in Ontario.

**Mrs Leitch:** We would applaud that for sure.

**Mr Smith:** Yes, we realize you are looking at these things. However, we know that the squeaky wheel is the one that gets the oiling, and by the delay in Ottawa this fall, I understand there were 55 more MPs up there who got on this thing because the Prime Minister did not act fast enough to do something. So those are the kinds of concerns we're having. We certainly agree that you're worth the money you're getting and probably more. Some of us do question the pension plan very thoroughly.

**Mrs Caplan:** One of the concerns I have as we reform the pension plan is that it not end up costing taxpayers more than it's costing them now. Some of the plans being proposed, like shifting to an RRSP, as proposed by Mr Harris, would result in costing the taxpayers significantly more than what they're paying today, and I think that would defeat the purpose of the reforms. I wonder if you would like to comment on that.

**Mr Smith:** If I may, I've been a local politician. I'm a city alderman in the city of Orillia, and have been for 20 consecutive years.

**Mrs Caplan:** Good for you.

**Mr Smith:** I don't get a pension, nor did I ever ask for one. I firmly believe that you should be allowed to pay into a pension. My own belief is that you should pay for it; the taxpayers shouldn't pick up any of it. Nobody dragged us kicking and screaming to the polls, ladies and gentlemen, and I think we'll all agree to that; we went of our own free will, for whatever reasons, and therefore I think we should be able to pick up the cost of it. Certainly it will be a write-off against income tax, and I think that's the way it would be fair. As I say, I've read about the fact that you're not making enough money. I don't really get uptight about that because I think if you give up something to go, you should be paid what you're worth. I won't make any comments on that, being a local politician.

**Mrs Caplan:** It's very subjective. A lot of people would say they're worth far more than they're really worth to the taxpayer, I would think.

**Mr Carr:** Thank you very much for your presentation. As has been alluded to, there are a couple of things I think we should do about politicians. First of all, we're going to reduce the number of MPPs by 24% because we think we're overgoverned here. We're going to make it along the same lines as the federal, scrap the pension plan

and the tax-free allowances, the reason being that you have to start with yourself. If you don't do it with yourself and start with yourself, the public should rightly be very cynical. In terms of the overall savings, it isn't great, when we're talking about cutting the amount of spending that needs to be cut, but it will send a signal that we mean business. So I thank you for endorsing that and I think it will happen.

**1640**

I wanted to ask, though, on Bill 173: As you know, I've got many complaints from Red Cross and the VON, that are angry for you people having supported that. I wondered, did you get your membership to endorse it, or was this something that was done in between and you had to do it before your membership could take a vote on it?

**Mrs Leitch:** You mean for us to be involved?

**Mr Carr:** To support it.

**Mrs Leitch:** We certainly did.

**Mr Carr:** So it was on the ballot at the last meeting.

**Mrs Leitch:** It was the United Senior Citizens of Ontario that originally went and started forming the alliance, to get other seniors to see if they would be on our side.

**Mr Carr:** So it wasn't the executive; your membership was involved.

**Mrs Leitch:** Our membership voted on it. We went to the convention and our membership voted on it.

**Mr Carr:** The problem I have with that is that you listen to the Premier and the minister saying, "The volunteers won't be there"—

**Mrs Leitch:** They will.

**Mr Carr:** Just a second; I know you're very anxious to get on with it.

The problem I have is that people of no political persuasion whatsoever are coming to me, and the seniors are saying to me, "What does this mean?" They're very, very confused. Groups like yours are supporting it, but groups that are well respected like the Red Cross and the VON are not. They were down here en masse very critical of it.

What do you say to the average person out there who is saying, "How can we have this, that the Premier and the government say one thing, United Seniors of Ontario say one thing, yet the Red Cross, well-respected people, are saying something different?" Why is this confusion out there with regard to this bill? Many people are very, very fearful.

**Mrs Leitch:** It's true, they are. But it's interesting that the people who receive the service are the people who are in favour of having it improved, because we see what's happening. Right now, we have to go to half a dozen different places to get individual service each time. We have to be assessed every time, tell all our history for every different thing. We think if they all get together and work together—but the big organizations like the Red Cross, Saint Elizabeth and VON have a heavy layer of bureaucracy at the top and they've got a lot to lose. They do not want to join with the others and they are trying to

discredit the consumers. I understand, but they're also doing a lot of fearmongering, because I don't think anybody's going to lose a job.

**Mr Carr:** What they're saying is that the government can't afford many of the services for seniors now and the fear is that we'll lose these volunteers. If people thought there would be—you're very anxious to get in.

**Mrs Leitch:** That one really upsets me.

**Mr Carr:** I'll go through it, because you know where I'm going but other people may not. The problem we've got with this is that everybody believes it should be better coordinated. The problem is, we think the government's going to a bureaucracy to do it to drive these people out. If you think that the people receiving the care believe they're going to get better care by a government agency as opposed to the Victorian Order of Nurses or the Red Cross, you're wrong. Services need to be coordinated. The fear is that this is going to become a government bureaucracy doing it, with all the problems. I want to tell you, if you think that the people receiving the care think the government will do a better job than the people right now, you're wrong. I believe the public does not believe that. What do you think of that?

**Mrs Leitch:** I think the misconception you have is that the government's going to run it. The government will be out of it more in the new system than they are now. This is going to have boards in communities, local people, receivers of service.

**Mr Carr:** But you're talking about the bureaucracy. Isn't this creating more bureaucracy?

**Mrs Leitch:** Those boards are not paid boards.

**Mr Carr:** But you're talking about the bureaucracy and how we don't have the one coordinated. All of a sudden we're going to have boards involved and so on.

**Mrs Leitch:** We've got boards now, sir.

**Mr Carr:** And what about the amount the people receive? How are we going to afford to pay these people if volunteers are doing it now? We just heard there's not enough money. Where's the money going to come from to have now people providing services who are going to be paid?

**Mrs Leitch:** It's going to save a lot of money if you coordinate all those administrative setups for all those agencies. We've got 120 different single-service agencies in this province. If they all work out of one administration, don't you think that's going to save money?

**Mr Carr:** Let me follow this. What we're going to do is coordinate all these, but the people who are doing it are doing it for free now, so there are some administration costs.

**Mrs Leitch:** Nobody's doing it for free. No way.

**Mr Carr:** I shouldn't say "free." I used the wrong term. What I meant to say is that I believe that people believe the Victorian Order of Nurses and the Red Cross are better in terms of their ability to provide it on a cost basis. I didn't mean free, because obviously the service is provided. But they are better, in terms of setting up the cost, than setting up a government bureaucracy, and then we'll be off into a higher cost.

**Mrs Leitch:** It's not going to be a government bureaucracy.

**Mr Smith:** These people are going to be elected locally in the community by their people and they will make up the board, the MSA. It will be peculiar to that particular community, in order to assess and give the services needed, because what you might need in your community and what he may need over in his community are going to be two different ball games. What we're going to try to do is make sure that the money that will be saved, that are now going for administration costs, will be at the front end.

I must say that when we talked to Ruth Grier, one thing she said was, "We're not cutting back, but there's not going to be any more money." The problem is, get what's in administration out and make sure. I agree there are some pitfalls that we could fall into, but if we do it right, that money should be up in the front end going to the people it's going to help, and that's the name of the game.

**Mr Carr:** So what's going to happen to our Victorian Order of Nurses and Red Cross under this plan?

**Mrs Leitch:** They're all going to work together. It's starting to come together: They're all going to work together. I worked for the VON for 10 years.

**Mr Smith:** You may have what Mr Martin down in Ottawa is talking about doing: You may have some senior administrators who are going to take early retirement, but so be it. If we've been top-heavy, that's one of the things, to get that money out to the front end, and that's what I think they're really trying to do.

**Mr Carr:** Everybody believes that the money going to the individuals in home care is more important than the administration, but I laugh at everybody who says, even about the problem with the school boards, "If we just cut out the administration, we'll be able to have all the money for the programs." Do you honestly, truly believe there's that much money in the administration right now that when the government gets involved in running it, they're going to do a more efficient job than the Red Cross and the Victorian Order of Nurses? I think they're going to be less efficient.

**Mrs Leitch:** We have no complaints about the service the VON or Saint Elizabeth are giving. I'd like that on the record. No seniors have any complaints about the service they're getting. It's the administration, the double-dipping of the administration costs. It has nothing to do with the services. They will be able to provide adequate and good services just the same, only maybe under a different administration.

**Mr Carr:** I appreciate your coming here.

**Mr Sutherland:** It seems very clear that Mr Carr and the Tory colleagues still haven't realized that what the multiservice agencies are about is going from several community agencies to one community agency. In my community, the perfect example is the children's aid societies. You've got community boards and you've got hundreds of volunteers helping out at the children's aid societies, still doing that, but providing one coordinated service.



However, we did have a long debate on MSA, and I want to just raise a couple of other issues.

First of all, to echo Mr Kwinter's comments on MPPs' pensions, my colleague Mr Lessard is one of several members who actually put forward a private member's bill regarding changes to the pension plan. He and myself, anyway, remain optimistic that we will see some changes before the election.

With respect to the insurance issue you raise, I did want to say to you that while your adviser has indicated that the 20% increase is due to changes as a result of Bill 164—

**Mr Smith:** Up to 20%.

**Mr Sutherland:** Up to 20%, okay—is due to changes in Bill 164, I just want to state on the record—and we are having the Insurance Bureau of Canada come in next week, so I'm sure we'll discuss this issue again—that a good chunk of those costs are due to increased claims and frequency of claims as a result of the Ontario motorist protection plan, the plan that was brought in by the Liberal government. I think that's important to get on the record, because Bill 164 is being blamed, but if you look at increases in other provinces you'll see they're just the same or in some cases even higher than what's occurring in Ontario right now. I just wanted to put that point on the record.

With your concerns about the GST, has your organization looked at all at the issue of harmonization of sales taxes, whether that would have any impact on your organization or whether you feel that's more appropriate for your members?

**Mrs Leitch:** We haven't done that in depth.

**Mr Smith:** Not in depth. We certainly are aware of it, but we're not sure just how it will be implemented, whether it will make any changes in what has been or whether they'll just move it together and we'll still end up paying the same.

**Mrs Leitch:** I would like to add that, contrary to the people who made the presentation ahead of us, our organization does not see junior kindergarten as a way to spend money. We think that's one way of addressing the day care system rather than helping children to be better educated. We feel that's not the best use of money.

**Mr Sutherland:** You did note that in terms of the junior kindergarten, and this government did make it mandatory to offer it. Even before we did that, though, most boards, 85% or 90%, were offering it. And of course now we have the Royal Commission on Learning, which is suggesting that we reinforce the mandate of early childhood education, and one of the ways we help pay for that is the elimination of grade 13; they are suggesting they do that in a neutral-cost way.

1650

**Mrs Leitch:** The property tax cost was taken away from us, the \$600 that we were getting, and it's really difficult when you have no income to make up the difference as the tax rises, because we all know almost two thirds of our taxes go to school boards.

**Mr Sutherland:** I guess you know we have had the Fair Tax Commission, we have had talk about property

tax reform. Is there a specific way you would like to see property tax reform go forward? The Fair Tax Commission talks about changing how we do assessment, and it also talks about other ways of dealing with the property tax issue. Or do you just want them generally reduced, and that'll be fine?

**Mrs Leitch:** I don't think, by any means, we want to be relieved completely of it, but we would like to see it more equitably distributed. Most of us have come to the point when we think there should be some tax relief for seniors in this respect.

**Mr Smith:** Also, I think the Fair Tax Commission did come up with some ideas of putting it into a type of income tax or that sort of thing, that everybody would pay their fair share. That certainly, I feel, has some merit.

**Mr Hope:** I'm glad my colleague brought up the OMPP and how that was brought in by the Liberals, because it was the same thing with fair market value. My constituents went absolutely berserk when the Liberals brought it in. Because it was Liberal and most of the councillors were Liberal in my riding in Chatham—you probably know George, who led the tax coalition. They went absolutely bonkers on fair market value.

As to the issue of the distribution of taxation, I don't think it's so much the \$20 fee that has upset my seniors. I think it's fair market value that has really upset my community: how they can spend all their hard-earned money, fix up their house, and then be told this is the value of the house, when they didn't go on vacations, did without things just to make sure their palace was their palace. To find that the Liberal government put it in and our municipal councillors supported it, and then be hit with it—I haven't heard much about the \$20 fee, but I'll tell you, I've heard a lot about fair market value from my seniors.

**Mr Smith:** Let me tell you, we've heard a lot about the \$20 fee. I think the reason is that most seniors, when they're going in for an assessment hearing, have no idea of what they're getting into—I've been there, so I know what goes on—and it's an expense they're a little scared of spending; they see it's \$20, and that's a lot to some seniors. And they're not even sure what they're getting into. I know of actual cases I've been involved in where the assessment officer has called to see whether he could be of help to the person, and then has turned the information the person has given against them when they come for their hearing, which I think is absolutely disgusting.

**Mr Hope:** The other part I want to focus on is on page 6, and I have to ask this question: "comparable to all other employed people receiving pensions." As you can see, I'm a little younger.

**Mrs Leitch:** A little!

**Mr Hope:** For most people, because of good pension plans that the trade unions have been out there negotiating—we're now seeing people retire at the age of 49 or 50. I'm one who is going to retire at 49 out of Rockwell International.

**Mrs Leitch:** Do you expect to get your pension at that age?

**Mr Hope:** I'll get my pension at 49.

**Mrs Leitch:** Which we wouldn't.

**Mr Hope:** I'm just wondering, with what the federal government—are you sure you don't want to change that to 67? The feds are now saying you may not be eligible for your CPP until you're 67. I'd hate to see the Liberals do that, move it up to 67, because that means we would have to change this for them to collect their pension.

**Mr Smith:** I have one answer to that. If you and I, sir, went into private industry and set up a pension plan and operated it the way previous federal governments have operated, we'd be behind bars doing hard time, because you are supposed to have money invested to cover those kinds of things. Let me assure you, I was with the Public Service Alliance, I was with the federal government for 29 years, and we a long time ago said to them: "Let us run your pension plan. We'll be able to give all civil servants in the federal government lower mortgage rates and what have you, and we'll make it pay." The problem is, the money has not gone in from previous federal governments. It's been a paper entry, and paper entries aren't worth a darn when it comes to payout.

**Mr Hope:** I was glad you brought up the unfunded liability, because we heard that issue on WCB. Companies forget to mention the unfunded liability of their pension programs, which is our money that they use to pay that program with.

**Mr Wayne Lessard (Windsor-Walkerville):** Mr Sutherland took away a little bit of my thunder. I just wanted to let you know that I introduced legislation to reform the MPPs' pension plans a couple of years ago, and I was happy to hear Mr Kwinter say that he hoped this was an issue we could resolve before the next election. I wish I had heard the same hope from Mr Carr,

but I didn't. I can only encourage you to keep up the pressure on your respective MPPs to have this issue dealt with.

**Mr Jamison:** Just out of interest, in your submission you mention that seniors are basically well involved in helping seniors. I'm rather interested in the thrust on recognizing that, recognizing that when you get volunteers—of course a big question around Bill 173 is volunteers. It's important to explore the avenues, how you assist those volunteers to assist people. That, I believe, is the real issue: giving some kind of recognition to volunteers who are helping seniors and others who are not as capable at that moment in their lives of getting around and getting places they must to ensure their health or whatever.

**Mr Smith:** We have in our community a recognition for volunteers each year. I think most communities get involved in this. I couldn't buy it when they were saying we were going to lose our volunteers with Bill 173. The complaint I got most, concern from volunteers, was the fact that in some cases—and I'll give you an example. The Meals on Wheels people were very upset that they were delivering meals to people who really should be paying for them, and when they questioned that, because of the way the system was run, the organization—and I won't mention it here—said, "That's just the way we do business." That's what upsets them, because they were in places where the homes were on the lake, and they really didn't think these people needed to have free meals. I think that's important.

**The Chair:** I thank the United Senior Citizens of Ontario for making your presentation. This committee stands adjourned until 10 am Monday next.

*The committee adjourned at 1657.*









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\*Lessard, Wayne (Windsor-Walkerville ND)

\*Phillips, Gerry (Scarborough-Agincourt L)

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### **Substitutions present/ Membres remplaçants présents:**

Hope, Randy R. (Chatham-Kent ND) for Mr Wiseman

Malkowski, Gary (York East/-Est ND) for Mr Abel

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**Clerk pro tem / Greffière par intérim:** Grannum, Tonia

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ISSN 1180-4386

**Legislative Assembly  
of Ontario**

Third Intercession, 35th Parliament

**Assemblée législative  
de l'Ontario**

Troisième intercession, 35<sup>e</sup> législature

**Official Report  
of Debates  
(Hansard)**

**Monday 13 February 1995**

**Journal  
des débats  
(Hansard)**

**Lundi 13 février 1995**

**Standing committee on  
finance and economic affairs**

**Comité permanent des finances  
et des affaires économiques**

**Pre-budget consultations**

**Consultations prébudgétaires**



Chair: Paul R. Johnson  
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## LEGISLATIVE ASSEMBLY OF ONTARIO

## ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON  
FINANCE AND ECONOMIC AFFAIRSCOMITÉ PERMANENT DES FINANCES  
ET DES AFFAIRES ÉCONOMIQUES

Monday 13 February 1995

Lundi 13 février 1995

*The committee met at 1003 in room 151.*PRE-BUDGET CONSULTATIONS  
ONTARIO ASSOCIATION  
OF CHILDREN'S AID SOCIETIES

**The Chair (Mr Paul R. Johnson):** The first presentation this morning is by the Ontario Association of Children's Aid Societies. If the representatives of the association would please come forward, make themselves comfortable and identify themselves for the purposes of the committee members and Hansard, it would be appreciated. I'll remind you that you have 30 minutes within which to make your presentation and field questions from the committee members. I'll also let you know that I expect to see the Progressive Conservatives and other representatives of the Liberal Party and the New Democrat Party here very shortly. So we'll get things rolling and they'll drop in very soon, I'm sure. Whenever you're ready, please proceed.

**Ms Barbara Brownell:** Good morning. My name is Barbara Brownell. I'm the president of the Ontario Association of Children's Aid Societies. On my immediate right is Mary McConville, the executive director of the Ontario Association of Children's Aid Societies. Next to Mary is Kim Way. Kim is a youth program worker, Youth in Care Connections Across Ontario. Kim is a former ward of the children's aid society and is the lead for the Youth in Care network in Ontario.

The Ontario Association of Children's Aid Societies welcomes this opportunity to appear before the standing committee on finance and economic affairs. I would like to put this presentation into the context of our children being our most valuable resource. What we invest in our children now will dictate future values, attitudes and quality of life. Our children are our crystal ball.

We have appeared before this committee annually since 1991, and during that time we have described an ineffective and irrational funding formula for children's aid societies. Over the years, nothing has changed. In fact, the recession, the social contract and decreasing annual adjustments to base budgets have complicated the funding situation further and eroded the service. Despite efforts by CASs to decrease budgets to respond to government cuts, the demand for services to families and children in Ontario continues to increase.

I would like to highlight the following points:

—The 1992 expenditures for 51 CASs amounted to \$396.2 million.

—The 1992 ministry-approved base budget for 51 CASs was \$378.8 million.

—Social contract and expenditure control cuts were reduced from the 1992 base budgets.

—CASs faced a 0.75% social contract reduction in 1993.

—In 1994, children's aid societies had a 0.5% expenditure control plan reduction.

—In 1995, children's aid societies face a further 1% cut to budgets.

—Since 1992, CAS budgets have been reduced by 2.25%.

Quite clearly, gone are the days of economic adjustments designed to assist CASs to keep up with inflation and the cost of delivering children's services. Children's aid societies have always had difficulty in planning for upcoming years because MCSS transfer payment announcements have been historically announced after the fact and well past the start of the January 1 budget year.

Mr Silipo was able to make his announcement for the 1995 budget in late 1994. This was helpful. However, the announcement has a further negative impact on budgets and requires further cuts to programming. This most recent reduction is the result of the minister passing on the ECP constraint from last year, which was reduced by half, following an impact assessment on the effect on these services.

All children's serving organizations face budget cuts, and as others reduce their services, more and more families turn to CASs for assistance. Children's aid societies continue to cut valuable programs that serve vulnerable children, have required their staff to take unpaid leave days, and continue to face potential layoffs.

In 1993, the Ontario Association of Children's Aid Societies participated with its community service partners to negotiate a social contract reduction of 0.75%. This reduction, which amounted to \$10 million, recognized an already underfunded sector, poorly paid employees and high demands for service. In the context of ongoing constraint, restructuring efforts are in short supply in the broad MCSS transfer payment sector and are hampered by ministry policy gaps, unclear policy or immature or non-existent local planning bodies to support these efforts.

As constraint continues, restructuring is essential. More intensive efforts must be directed to the creation of prevention services, integrated approaches to service delivery, treatment and care, and interministerial coordination.

Public tax dollars support the primary needs of children through the ministry structures of Education,

Health, Housing, and Social Services. We see no substantial effort at integrating ministerial policy with respect to children so that community planning and service delivery can be more integrated. The Royal Commission on Learning report with respect to early childhood education is a perfect example of the structural barriers to integrated policy and programming for children. The fragmentation of children's services and cutting our children into convenient sections for budgetary purposes is not acceptable. We need a holistic view. A strong political commitment is required to effect bureaucratic change that will ensure interministerial cooperation and joint planning.

1010

Specialized services for children and the mandatory services of child protection and young offenders' services cannot withstand further across-the-board cuts without the erosion of services. The ministry must ensure that there is a systemic approach to achieving efficiencies. A service system that responds in a piecemeal fashion and too late inevitably leads to more expensive intensive treatment interventions and substitute care.

The reform of the delivery of children's services in Ontario needs to move forward. The MCSS children's policy framework was begun in the early 1990s to guide the integration of the specialized children's services—those that are funded through the Child and Family Services Act. As we move to implementation of the policy directions, we find government relying on a community planning capacity to effect change. In some instances these processes must be created. They need time to mature before they are able to take on the monumental task of rationalizing a cumbersome service delivery system.

In some communities, the community planning process is utterly new. In others, the community planning process is still non-existent. Even in those communities where community planning processes have been in existence for some time, it is unrealistic to expect them to make budgetary decisions which force them to pit one agency against the other. The planning functions of health, education, social services, child care and children's services must be integrated if we are to be serious about reforming our public sector structures.

Ontario's child welfare system has historically been considered one of the more progressive in Canada and the United States. It has been praised for innovative approaches and responsive legislation. However, child welfare in Ontario today is in trouble: Budgets have been slashed; staff resources have been reduced; programs have been cut; some families get help too late; some teens get no service; some teens flee to the streets or welfare at age 16.

Children's aid societies in Ontario are increasingly worried about their ability to comply with the regulations of the Child and Family Services Act. Good intentions simply are not enough.

**Ms Mary McConville:** In 1991, the minister of the day, Zanana Akande, who was Minister of Community and Social Services, announced a joint OACAS-MCSS funding committee to address the irrational and ineffective funding mechanisms for CASs in Ontario. Indeed,

I'm aware that the subject of the irrational funding methodology has come up in the House on numerous occasions over the last four years. Four years later, we're still working on that joint funding approach and I have to tell you that we're making very little progress. No new approaches to funding have been suggested.

We have persistent problems with our funding mechanism for child welfare in the province of Ontario, and I will remind you of the difficulties as follows:

—The funding of children's aid societies is not related to the community needs documented in the society's required annual service plan.

—The child welfare review process, which is established through legislation in this province to respond to the base budget requirements of your children's aid societies, has been abandoned by the ministry.

—The exceptional circumstance review process, which is intended to respond to unexpected and unusual expenditures, such as an increase in the number of children in care that cannot be planned for, has now been converted to a contingency fund that has been capped by treasury and some of these funds are now directed at our other mandatory children's service—the young offenders' services of the province.

—Despite the minister's transfer payment announcement on December 5, there is no commitment to annualizing any of the contingency funds, despite demonstrated need.

—Ministry policy, further, which supports the divestment of child welfare services to our native peoples—and we're not, by the way, criticizing the policy direction there—is also placing further strain on children's aid society budgets.

In a recent analysis of our spending, which was done to support the joint funding committee with the ministry, we discovered that there's been a 7% loss in staffing resources in our children's aid societies from 1991 to 1994. Post-social contract, we anticipate further job losses as some societies are still relying on unpaid leave days to get through.

Recently, again as part of that analysis of cost expenditures, we looked at where we were spending our money, and you might find some of that interesting: 33% of our expenditures were directed at intake or investigation of cases and protection services; 32% of expenditures were directed at foster care support; 33% of expenditures were directed at group care support for children in care; only 2% of our expenditures were directed at early intervention and prevention programming.

We need to ask ourselves some tough questions. We need to redesign our funding policy so that it's more flexible. Are there new ways of redirecting money in group care to family support and prevention, or from foster care to in-home resources? Can we further reduce the number of children coming into care? Can we reduce the length of stay of those children who must come into care temporarily? Can more moneys be directed to prevention and family support and, in turn, reduce the need for out-of-home care in the first instance? How can we support our youth who are wards of the province so



that they can lead productive lives on their exit from child welfare?

We need a consistent policy focus to improve the outcomes of children's aid societies in the province.

In the interests of time, Mr Chairman, I'm going to skip to our recommendations for funding policy that supports both the child welfare system in the province in particular and also the broader government responsibilities for public services to children and their families, which are listed on page 10, some of which you've heard before.

Firstly, the government must recognize the mandatory nature of child welfare services and provide adequate resources and funding to CASs to carry out the requirements and the intent of the legislation and the regulations.

The government must commit to annualization of contingency funds when the need has clearly been demonstrated. The government must reinstate and respond to the child welfare review mechanism which was established by legislation to deal with the adequacy of children's aid society budgets.

The government must develop public funding policy to support a spectrum of child welfare services that includes services directed at the prevention and remediation of circumstances leading to child maltreatment.

We recommend that a provincial fund be created to finance new strategies that promote the health and wellbeing of children and support primary prevention and early intervention programs directed at children at risk.

1020

We ask that the government ensure that all ministries that support children and families in the province share the responsibility and are accountable for the health, wellbeing and transition to adulthood of those children who are entrusted to the province's care.

That government transfer the jurisdiction and funding for young offender services to children between the ages of 16 and 18 to the Ministry of Community and Social Services.

We recommend:

—That the full spectrum of services available to children at risk and funded by all ministries be formally reviewed to identify service gaps and barriers to the integration of services.

—That restructuring be driven by service principles and effective government and community planning processes that cut across all related ministries.

—That government clarify and assign appropriate roles and responsibilities for government, community boards and community planning bodies.

—That government commit resources to data collection, evaluation and a research capacity to support service delivery systems.

If I could summarize our message to you this morning, and then we'll be glad to take some questions, I think I'd like to crystallize around three points:

Number one, as Barbara mentioned earlier, our ministries are fragmenting children. Government policy with respect to education, health and social services as it

pertains to children and families has to be integrated.

Secondly, we need to modernize our service delivery systems in this province across all public services. Certainly, with respect to children's services and specialized children's services, we feel that early intervention programs should be organized around your children's aid societies for two reasons: number one, to ensure that we can, to the greatest extent possible, prevent unnecessary admissions to care, and secondly, to support more administrative efficiency.

Lastly, we are asking that there be an adequate response to the mandatory service requirements of your child welfare services in the province.

I'll be glad to take questions, as well as Barbara, and Kim Way will be glad to speak to any questions you have from a youth perspective.

**Mr Gerry Phillips (Scarborough-Agincourt):** I appreciate the brief and the recognition that we're all facing some challenging fiscal times.

One of your themes was much better coordination between ministries. There's a feeling that there's a lot of fragmentation that goes on and that must be costly. If we're to do one thing to kind of coordinate it better, what would your one recommendation be for us?

**Ms McConville:** I think there has to be a cabinet-level commitment to coordination. Short of the integration of ministries, which presents one with all sorts of problems, it would help if there was a single senior cabinet minister who was responsible for the integrated policy development and community planning issues across ministries, and that this minister be in a position to create some kind of cross-ministerial structure or group, again at the deputy level, I would think, at the very least, and involving ministers to ensure that some coordination happens at the ministry in the first instance.

You can't have coordination on the ground between boards of education, between specialized children's services, between family violence programs and child care, if there's no coordinated policy effort in the ministries themselves. It simply won't happen.

**Mr Phillips:** I appreciate that. That's an enormous challenge, but I think an enormous benefit if we can find a way, to use the current language, to eliminate the silos effect where we organize but we don't coordinate. I appreciate your recommendation and maybe that's something that has some—

**Ms McConville:** I should tell you that there was an attempt about three years ago to create a child and family secretariat across several ministries. It received some staffing support. It was to be supported by deputy ministers and a lead minister—it was Marion Boyd at the time—and when the government began to look at constraint, it was one of the first new initiatives to go. So the only attempt I've seen in the last five years to provide a cross-ministerial focus around children and families lasted about six months.

**Mr Phillips:** The challenge is, if it's seen to be adding bureaucracy, then that's not what anybody wants to do; if there's a way it replaces and simplifies things, then people can support it.

The second question would be, if we were looking at one area of what you call prevention, one area where we could really see a return on investment in prevention, is there any recommendation that children's aid societies would have there, where there's one most important area?

**Ms McConville:** I would make two recommendations. By the way, included in your package there is a presentation we made to the standing committee on children at risk. There are a number of recommendations in there that respond to your question. But quickly, there's no question that prevention programs that are targeted at the prenatal stage and through the early first three years of life are absolutely critical in order to prevent low-birth-weight babies, for example, as one particular program focus that you could zero in on. The creation of programs that would focus on prenatal through one, two and three years of early childhood will have very effective outcomes, and that's been demonstrated again and again.

With respect to moving along that spectrum with respect to your specialized services, what would be helpful is if the early intervention programming—there is a significant amount of it but not enough—that does exist in the community that targets your high-risk families, the families that are already moving into the safety net, could be organized around your mandatory functions more effectively. I think we would do a better job of reducing the number of children in care and providing in-home supports to families rather than more expensive residential services, recognizing that some kids will still have to come into care, that they don't have a family that can care for them.

**Mr David Johnson (Don Mills):** I'd like to thank you for your deputation today and thank your agencies for the service that you give to those who need it across the province of Ontario under most trying circumstances. You mentioned the 7% reduction in staffing levels, certainly a difficult situation. To me it points out the impact that the deficit and the interest that's consuming so much of the provincial budget are having on the services of people in Ontario, because there's no question that one of the prime impetuses for cutting is to deal with the deficit and with the interest in the budget.

I was pleased to hear you talk about modernization, about efficiencies, about coordination between ministries. Perhaps just a question: In one of your recommendations towards the end, I wonder if you would explain the impact of transferring the jurisdiction and funding for the young offender services, which is one that you mention specifically, for children between the ages of 16 and 18 to the Ministry of Community and Social Services.

**Ms McConville:** I think one of the difficulties with the transfer to date has been the recognition that some new facilities would be required to house some of those youth who are presently in adult facilities, but in our view, housing youth between 16 and 18 in adult facilities is unconscionable, and that's a situation that has to change in Ontario. There are some financial implications for the province in doing that, which have more to do with the gap in capital in actual facilities for housing that population than the actual service to them.

**Mr David Johnson:** Shifting back, earlier in your

presentation you talked about the timing of your funding, and coming from a municipality for many years, I know the problems of receiving one's funding about, I don't know, a third or perhaps more in some cases—I know library boards in some cases didn't get funding until about the middle of the year, and it's very difficult to plan the year in that regard. What has been the experience of the children's aid society historically in that regard and what recommendations would you make?

**Ms McConville:** Children's aids frequently are a half a year or a full year into their spending before they get their budget approved, which is insane. You cannot plan on that basis. For their contingency fund requirements, in other words, if you have an extraordinary case, as we've had in the province on many an occasion, that involves a substantial increase in investigations or there is an unexpected and dramatic increase in the number of children in care, the contingency fund approvals are after the fact and money may not flow for a full year after you've begun to spend the money.

**1030**

One of the cures for this, but again it has substantial financial implications and that's why it's been resisted, is 100% government funding. All your other children's services are funded 100%, that is, the specialized ones, by the ministry. Child welfare gets 20% of its share from the municipality. The different fiscal years of the ministry and the municipality just makes for an impossible situation for the societies in terms of planning, and I know it's very difficult for the municipalities as well. So we've made that recommendation for years, that the funding be 100% provincial, as is the case with children's mental health. But it would require the ministry absorbing the municipal share, which is substantial.

**Mr Norm Jamison (Norfolk):** Thank you very much for your presentation today. As you're aware, we're here to consider the direction of this year's budget, and of course I needn't tell you that most of the presentations that we've had to date really recognize the need to deal with the overall problem of debt and deficits and so on, but it's interesting along the way that almost everyone is asking for some kind of recognition on their own part that's needed and that you really start to accrue all these things. We're talking about millions and millions and millions and possibly billions of dollars.

I'd like to say to you that the area in which you work is a very important, very crucial area. We're really talking about the next generation of people that will be really paying for things in this province and leading this province and so on, and that's very important.

I would like to ask you, we're talking about funding, of course, funding difficulties, and those are real. I believe they are. When we talk about the welfare system, you've described in this document very clearly about the transfer payment kind of situation where the province, in your terms, in your assessment, is now picking up 48% of the responsibility, as the cap on CAP has really affected things. Realizing that when we talk about welfare, 50% of the people receiving benefits from welfare are children, that's something I believe is very important.



There is a party out there that's talking about cutting welfare payments to people in this province up to 20%. In my mind, that's a 20% cut in supporting those children. I want to know what you see happening indirectly to your association if that were to happen.

The other question, as the Treasurer has asked, is that we have a federal budget coming up, and that budget could deal with more types of situations like the cap on CAP, which has placed our province in a situation of making up. So those are the things I'd like an answer to.

**The Chair:** If we could have a brief answer to your questions, it would be appreciated.

**Ms McConville:** Two brief answers: If welfare reform translated into just slashing welfare payments and nothing more, then I think you could easily predict that one of the outcomes would be increased CAS caseloads. Secondly, with respect to the rather real threat that federal transfer payments may be cut even further, and possible implications for services like ours, I have tried to alert government and the other parties in the House, through this presentation and other presentations, that you have to turn in that instance to rethinking how we're delivering our services and you have to take another run at your priorities.

We are moving too slowly, especially in the social services area, with respect to restructuring. I have a real fear that circumstances are outpacing the plans we have in place to address constraint. I think the entire restructuring agenda has to speed up, has to have more priority and has to be given very serious attention by the government very soon or we are simply going to erode away the service capacity we have and retain the infrastructure that we have.

**The Chair:** I'd like to thank the Ontario Association of Children's Aid Societies for making its presentation before the committee this morning.

#### ONTARIO HOME BUILDERS' ASSOCIATION

**The Chair:** The next presentation is by the Ontario Home Builders' Association, if you would please come forward and make yourselves comfortable. I remind you that you have 30 minutes within which to make your presentation and field questions from the committee members.

**Mr Ward Campbell:** Good morning. My name is Ward Campbell. I am president of the Ontario Home Builders' Association and I'm a builder and developer in the Hamilton area. With me today is Laverne Brubacher. Laverne is OHBA's first vice-president and a renovation contractor in the Kitchener area. Our remarks today should take about 15 minutes, so that will leave time for your questions. Laverne will start with an overview of the industry and then I will pick up with recommendations for the budget.

**Mr Laverne Brubacher:** As I'm sure all of you know, the housing market peaked during the late 1980s. For three years, from 1987 to 1989, we were building between 90,000 and 105,000 units a year. When the market fell to half that level, a lot of people thought it was just a matter of time before things turned around. Well, we expect 47,000 starts this year, and if that

happens, it will mark the fifth year that starts have been between 45,000 and 55,000 units.

It's now clear to everyone that the late 1980s were an aberration. Part of the reason for the activity we saw back then was the baby boom. But there was more to it than just more families buying homes. Those families were a lot more affluent than the ones before or, more importantly, the ones now.

Over the past few years, most families have had their incomes frozen or reduced. On top of that, tax hikes have cut into their buying power. Finally, most families have had a spouse or a friend or a friend of a friend lose a job, so job security is not something they take for granted.

Two other things affect these families: First, they have a mountain of debt that they're trying to pay down, especially now that interest rates have gone up. Second, they don't believe the government will be able to look after them when they retire, so they're putting more money away into RRSPs and other savings. This means that families are less affluent and are trying to make their dollars stretch further, and this explains why the dramatic recovery in export-based industries has not and will not—I repeat, will not—spread into housing.

We believe the housing market has more or less stabilized in a range of 45,000 to 55,000 starts and we believe it will stay in this range for the foreseeable future, but as last year showed, demand for housing can fluctuate very quickly within this range. At this time last year, we predicted 50,000 starts for Ontario in 1994 and for a while it looked as if we may have underestimated the strength of the market, but then interest rates started going up in the spring and all of a sudden sales stopped. They didn't slow down—they stopped. Some large builders who depend on 30 or 40 sales a week during the spring and summer reported going weekends without a sale. And the same thing happened a second time in the fall when rates went up again. It was like someone was turning a tap.

#### 1040

The Royal Bank recently released a study that shows the increase in interest rates last spring increased the average cost of owning a home in Toronto from 34% to 39% of household income. For a lot of people, this makes the difference between owning and renting. Buyers today are right on the threshold of affordability. They are very price-sensitive and, unlike the 1980s, it does not take much to push them out of the market.

Before I turn things back to Ward, I'd like to say a little bit about the renovation side of the industry. In terms of total dollar volume, home renovations in Ontario have overtaken new home construction. The numbers last year were just over \$8 billion for renovations and about \$6 billion for new construction.

The renovation sector has been benefiting from the tendency of most people to do some remodelling four or five years after they move into a house. But two other factors are having a negative impact on this side of the industry: One is taxes, and the other is interest rates.

I routinely bid on renovation jobs in which I am undercut by as much as 20% and sometimes 30% and

40%. Black market renovators can do this because they pay their workers cash so wages can be lower; labour costs are lower still because they don't have things like WCB or payroll taxes, and materials costs are lower because they barter or pay cash so they can evade sales taxes. When renovation customers evade taxes by hiring in the black market, the projects still get done, but the losers are government and legitimate companies.

But high interest rates may hurt the industry for everyone. A lot of large renovation projects are tied in with refinancing mortgages when they come up for renewal. But with higher rates reducing affordability, fewer home owners will be able to refinance when it comes time to renew their mortgage.

If there's a single message in all of this, it's not to take anything about the housing market for granted. As we saw in 1994, it does not take much to turn a promising year into a disappointment.

Now I'll turn things back to Ward to talk about the implications of all of this for the budget.

**Mr Campbell:** If I can summarize in a few words what Laverne has just said, it is that the housing industry is very fragile. For a lot of reasons, the export-led recovery has had a difficult time spreading into domestic consumption. This has hit housing especially hard.

This condition has two clear implications for budget-making.

First, the estimates of the strength of the housing industry should be very cautious. If the government overestimates the number of houses to be built, it overestimates the amount of taxes it will collect and underestimates the social assistance it will have to pay out. Each house generates \$15,000 to \$20,000 in tax revenue for the province and creates a year's employment for two and one half people. Right now there is a gap of 6,000 starts between our forecast for 1995 and the government's. If we are right and the government is wrong, the government will be collecting \$100 million less in taxes than it expects.

The second implication is that the government should look for ways to increase the purchasing power of consumers. Personal income taxes were raised in 1991, 1992 and 1993. In 1992 and 1993, when people were struggling out of the depression and not sure if they could hold on to a job, the tax hikes were retroactive. This attitude that the taxpayer has a bottomless pocket has got to stop. We meet those taxpayers every day, and believe me, they cannot afford the taxes that are being piled on them. Every tax hike drives people out of the housing market and into the underground.

Now I want to shift from talking about people to talking about corporations. Two years ago, the government introduced its corporate minimum tax. I want to suggest that this year the government introduce minimum corporate tax. The lower dollar is already attracting export-based companies, but there is no reason for not sweetening the pot. Lowering corporate taxes would send an important signal to the international business community that Ontario is open for business. And let's face it, you get the money eventually anyway through capital

gains or income taxes. The other tax on corporations I want to talk about affects the housing industry, but first I want to make one thing absolutely clear: All through the depression, the housing industry has not asked once for a break or a program to stimulate its market, and we are not asking for one now. All we want is a level playing field.

There is a provision in the land transfer tax that raises the rate to 20% of the purchase price if the non-residential land is bought by a foreign interest. Developers buy raw land before it is zoned residential, so this provision affects foreign-owned corporations and partnerships where the majority interest is foreign.

Next month, changes to the planning and approvals system will go into effect that will raise costs, shift them to the front end of the development process, and increase risk. Raising enough equity to develop land is already difficult and it will become even more difficult. The last thing we need is a punitive tax that will discourage investment in our industry.

That covers the main points we wanted to raise today. Just to summarize:

First, the housing market was hit hard by rising interest rates and will probably stay depressed this year. We estimate starts at 47,000, quite a bit lower than the government's estimate.

Second, the consumer cannot afford any more tax increases and is in open revolt. Over 40% of the renovation industry is underground, something that hurts our industry and the government.

Third, you put the first two points together and you get a clear direction for government budgets: Deficits must be reduced and taxes cannot go up. I hope you have made this point very clear to the federal government and I hope we see it reflected in Ontario's next budget.

**Mr David Johnson:** I agree with you 100%—excellent presentation; your industry is of key importance in the province of Ontario. "Deficits must be reduced and taxes cannot go up." As a matter of fact, your comments about the personal income tax in the province of Ontario hit home to us. Canada has the highest personal income tax of all the G-7 countries and Ontario is right at the high end in Canada, so there you see it: The people of Ontario, on the personal income tax range, are about the highest, bar none, of the major industrial countries.

The wrong message was sent out on a corporate minimum tax; no question about that. The corporate filing fee is another one you might have mentioned, that \$50 fee; again the wrong message to people who are trying to build our province and contribute to the economic wellbeing. Bill 163: I think that's the one you're referring to, is it?

**Mr Campbell:** Yes.

**Mr David Johnson:** About "the front end of the development process, and increase risk." I assume you're alluding to the fact, by "at the front end," that the application requires all the details up front. Perhaps you could explain that a little more fully.

**Mr Campbell:** We're most concerned about this bill being implemented in March, as you know. We have



done a lot of work on this with the government. We sat on the task force for implementation guidelines, but we didn't even get the final package and everything put together until very late in December; nobody's had a chance to sit back and analyse whether all the things are going to go together.

You're most correct. We feel that the cost of developing land, at least in the short term, will increase, and the process will be slower due to confusion in the policies, conflicting policies, and also the fact that all of your work has to be done up front. As you mentioned, one of the big costs of land development is getting into the application system. They now say you have to have a complete application before you can submit it. We haven't got final details about what that's going to entail, but all indications are that it's going to be much more onerous than it is now to start the land development process, and therefore you're going to have longer waiting periods up front before you actually get into the application process. They have put in three time frames once you have your application in, but they can slow things down easily just by saying, "You're not complete," and not accepting your application. We're most concerned as an industry.

**Mr David Johnson:** The same bill that brought in those upfront application fees brought in—essentially, the six policy statements came hand in glove with that, which means that right across the whole province of Ontario exactly the same rules are going to have to be applied: in rural areas, in urban areas etc. I think it's going to be a problem for your industry.

Bill 120 is another bill which essentially duplexed every house in the province of Ontario. I think that's probably had a negative impact on your industry.

Your industry has had a lot to cope with over the past few years.

1050

**Mr Campbell:** Yes, we have, but we have not asked for any handouts. We just want a level playing field, we want a smooth legislative policy, we want consistent guidelines, consistent rulings. We're not getting them. This "be consistent with" framework is most difficult for us to work in, especially when you take the variations across the province. You've put in, instead, guidelines and a set of rules that may work well in an urban area but may not work in Wawa or somewhere else. You don't know.

**Mr David Johnson:** The property taxes in Canada—this is from the Canadian Tax Foundation—are the highest of all the OECD countries; that's about 24 different countries. We have the highest, as a proportion of gross domestic product, property taxes right here in Canada, and I'm sure Ontario is right at the high end of that. So that shows you something else you're up against.

I just wanted to shift to building code standards. I'm not so sure you mentioned that in your brief, but building code standards over the past few years have been increased: I think insulating basements, the height of the ceiling, and in terms of the water flowing away, drainage—all of those kinds of things. I suspect it was in

preparation for Bill 120. That's added considerably to the cost of a house in the province of Ontario, has it not? I think we have to call a halt to that until we can get housing into an affordable range and stop piling more and more costs on to homeowners.

**Mr Campbell:** The last two changes in the building code that were enacted added about \$8,000 to the cost of an average house in Ontario, at a time when the consumer could not afford any more price increases in their housing. A lot of it, we felt, was unnecessary.

The government has put a moratorium on and it's not going to do any changes to the building code this year. We thank them for that, but it's not enough. We think the government needs to go back and the Ministry of Housing needs to go back, look at the entire building code, make sure it's cost-effective, reanalyse the different areas of it. I would suggest they should look at bringing in a code that reduces the cost of housing, rather than just increase the cost of housing every time. It can be done: I know I could sit back and build a perfectly safe house for less money than I have to right now.

**Mr David Johnson:** They need to tackle the deficit in the province of Ontario, and you've highlighted that here. This is really crucial, because deficits are essentially future taxes. They're piling on to the debt of the province of Ontario, which means that the interest on the debt today consumes \$8 billion out of the provincial budget, which is a huge proportion of the revenues, and then guess what happens? It happens here in Ontario and it's happening at the federal level: Up go the interest rates, because those who lend money to Ontario and to Canada expect a higher interest rate because of that higher risk. And those higher interest rates are disaster for your industry.

**Mr Campbell:** No question. As Laverne mentioned in our remarks, when the interest rates went up this spring, the housing market stopped; the tap was turned off. We want the governments to attack their deficits, to stabilize the Canadian dollar, all levels of government, in order that we can get the interest rates back down in Canada.

You know, we're running a very low inflation rate here. It's very hard for the consumer to justify spending 10% interest rates when inflation's running at 1% and 2%. It makes big-ticket investments very difficult for the consumer of Ontario and of Canada. We definitely want the governments to get their debt under control, allow the interest rates to come back down and allow us to get back to work.

**Mr Jim Wiseman (Durham West):** I just want to correct the last comment, or throw it out for discussion. The interest rate increases over the last year or so have not been driven by the debt, the debt interest or any of those things, because none of those things has changed in the last year. What has changed in the last year is the Federal Reserve in the United States saying: "There are too many people employed in the United States. This is inflationary. Therefore we're going to raise the interest rates to put people out of work." That is the deliberate policy. It's called the non-accelerating inflation rate of unemployment. If your industry is being harmed, it's being harmed because of the monetarist policies by the

central bank of the federal government in the United States and the fact that our government, the Liberal government and the previous Tory government, will not separate and have an independent banking policy for this country.

You're right. We don't have inflation in this country. We have huge capacity remaining in our manufacturing and in your sector, where we can grow without it being inflationary. Yet the interest rates continue to go up, and they go up, we have been told by the various groups, because of the Federal Reserve in the United States. If we look, everything is indicated there that they are raising interest rates to put people out of work. It's a deliberate policy on the part of governments, the federal government in particular, because it controls the Bank Act and the Bank of Canada Act, to raise these interest rates. From your brief to the Minister of Finance, you clearly indicate that interest rates are the number one factor in terms of turning off or turning on a consumer. I just wanted to clarify that.

I guess if there's a question in all of this it's, how do we make the presentation to these banks and the central bank in particular to start acting the way they did prior to 1975 when most of the changes that are allowing them to do these things to us came into effect?

**Mr Campbell:** You are correct in saying that the US Fed did push the interest rates up. That was to slow down the economy there, there's no question about it, but it's our deficits—and the deficits have accumulated over the years—that require us to have the spread in rates in order to bring money into this country, to keep our dollar in the 70-cent range rather than letting it go to 50 cents. We're still running a few percentage points higher than the United States even though we have lower inflation, and the reason for that is because of the foreign investors concerned about our total debt.

**Mr Wiseman:** I think that's interesting, because this current round of interest rate speculation was stimulated by the Wall Street Journal. The people who wrote that article are international speculators in currency. The people who benefited from the fact that they created the instability in the international markets and cast aspersions on whether we were able to hold our debt, whether we were going to meet our targets and bring the deficits down, were the very people who are making the money.

Don't take that from me if you mistrust what I'm saying. David Crane, who is an editor of the Toronto Star, wrote about that on the weekend, and others have pointed out that the so-called experts whom everybody believes are the very people who go into the market and make the money by jerking our interest rates around and by jerking around the value of the Canadian dollar. They'll sell through their electronic selling devices, they'll sell it on the international market, they'll cause a run on the Canadian dollar, and then bang, they make their money and they buy back in.

If you want to point to deficits and the creation of deficits, take a look at what the bank policies have been in this country for the last 15 or 20 years—20 years, in fact. Our deficits are real, but they're no different from what they were a year ago. What is different is the

speculators playing the game and the Federal Reserve in the United States. If they were to keep their interest rates lower and allow people to get jobs in this country, then the deficits would go down, but the non-accelerating inflation rate of unemployment in this country is 9% unemployment rate. They're putting you and your people out of work deliberately to keep that unemployment rate high. That's the biggest threat we have both to employment and to Canadian unity at this time.

**Mr Campbell:** I still go back to say that if we did not have the deficits that are in place, if we were not running the big deficits at the provincial and the federal levels, we would be able to have a made-in-Canada interest rate policy and do what we wanted. Because of the deficits, we are unable to do that, and we have to go along with what the international monetary people tell us. You may be right, there may be some speculators trying to manipulate a little bit—

**Mr Wiseman:** May be?

**Mr Campbell:** —but the reality is that the deficits are what is causing interest rates to stay up. If there were no deficits, we would be able to lower our interest rates in Canada and still attract foreign investment. With the deficits, people are concerned about their foreign investment and are demanding a premium to invest in Canada, forcing our rates even higher than they need to be.

**Mr Phillips:** I agree with you. I think there is no doubt that our very high deficits and debts cause high interest rates, because people want what's called a risk premium to lend money here because they're worried about the stability of the dollar.

So I agree with both points you make. The other is that taxes are a significant problem. There is no doubt that the population is taxed out and that we have to deal with the deficit by restraint. There just is no more manoeuvring room for revenue, no doubt of that.

**1100**

Having said that, has the council got any advice for us on the restraint area, anything you see where clearly we could be doing things more efficiently, spending less money, reducing the deficit through that area? Any recommendations for us at all?

**Mr Campbell:** Certainly in our industry the one that comes to mind right away is non-profit housing. We feel that the program is ineffective, doesn't target those in need, and it costs a lot more money than it should. I can give you an example. A non-profit was built in Stoney Creek, the price on it was \$124,900, and right around the corner they were selling condominiums on the open market, and presumably making a profit, for \$99,900. That doesn't make sense. Obviously, there's a huge waste of money there. It's an ineffective program and does not in any way help those who need help—I take that back. Sometimes there are a few who get helped, but it does not help anywhere near the numbers it could with the amount of money that's being spent on that program. The auditor has report after report on inappropriate spending in those non-profits. That's certainly one right off the top.

The other thing that needs to be done, definitely, is that we need to look at the rent control legislation in this



province. It's discouraging private investment in rental accommodation in this province. I'm not saying necessarily to abolish it, but it certainly needs to be looked at and reworked. When you take the situation in BC, where they decontrolled in 1984, and between 1984 and 1994 the rents went up less in BC than they did in Ontario, something's wrong with our system. I think somebody told me it costs \$26 million to administer. There are all sorts of examples like that out there. We need to look at each program, each ministry, and cut them back.

**Mr Monte Kwinter (Wilson Heights):** I actually wanted to ask you about the non-profit housing, which wasn't in your brief, but now that you've answered it, I'd like to ask you another question.

Your concern about the 20% surcharge on foreign investors in land development: What would you suggest as a way of making sure of the intent, which is that farm land and things of that kind do not fall into foreign hands without that surcharge? Even though the residential is excluded, is there some formula you would have that would allow foreigners to invest and once they do get the zoning into residential they could get their money back?

**Mr Campbell:** Something like that would possibly work. Right now they do have a system in place where you have five years to get it approved. But we're very concerned that, with the new approvals process, that's not going to be long enough. Right now it takes approximately six years to get a piece of property through the planning approvals process from the time you purchase it. Add another year to that, another year and a half, and you have problems.

I understand that right now the foreign companies can come in and invest and, as long as they're going through the planning approvals process, they can post a letter of credit or suitable credit to the government and not pay the tax or they can defer it for up to five years, but that lapses after five years. Previous practice has been that they could just go in and ask and get an extension to that. Recently it's come to our attention that they're not allowing that; it has to go to cabinet now. They're trying to make it tougher in a time when they should be making it easier.

With the new planning system, it's going to be harder to get greenfields development done, and it's going to take longer. You could be five years before they even accept your application in the system. Before, it was easy to prove you were working on an application. You went in and you said: "I've applied for it. This is what I'm trying to do with the piece of property." Now it's not necessarily going to be like that, because they won't accept your application. You can say, "I'm doing studies," but until you've applied—

So we're concerned about the way it works. We don't think it adds significant amounts to the treasury, and we don't think it creates a level playing field. With the more complicated system, it's going to require more upfront money. There are going to be more partnerships. I know one company, and it's an international company that's done a lot of investment in Ontario, that says they've pulled back and have not made any new investments: They're in Florida, they're in Texas; they're there

because they don't have the same problems they have here. And they have over the past made lots of investments in Ontario.

**The Chair:** I thank the Ontario Home Builders' Association for its presentation this morning.

#### ONTARIO FEDERATION OF AGRICULTURE

**The Chair:** The next presentation is by the Ontario Federation of Agriculture, if the representatives would come forward. I know you're not strangers to anyone on this committee, but if you would identify yourselves for the purposes of Hansard, it would be appreciated. I remind you that you have 30 minutes within which to make your presentation and field questions from the committee members.

**Mr Roger George:** I am Roger George, and I'm the president of the Ontario Federation of Agriculture. I'm joined by Cecil Bradley, who's our senior manager of policy and research and our chief economist in OFA.

We are pleased to be here this morning, and we have a document we wish to table with the committee for the official record. I have no intention at all of delving into the details on the 34 pages, but I will go quickly over the summary of recommendations and leave as much time as possible for questions.

The first four chapters of the brief essentially set the stage for a snapshot of Ontario agriculture today. Our message in the brief is very simple. It is that despite all the various challenges of change that Ontario farmers, indeed Canadian farmers, face, we are confident about the future of our industry and the agrifood industry as one of the largest parts of the Ontario and Canadian economy, and farmers are steaming ahead with new ideas, new investment and making new strategic partnerships.

All we want is to ensure that the government of Ontario, in conjunction with the federal government, provide us with the tools and the infrastructure to enable us to be competitive in the next century. We ask the question why a nation that's achieved agricultural excellence and world recognition for product quality would take a key economic sector for granted. It is almost beyond our comprehension. We suggest to you that competitiveness is more than price in this world; it's also an attitude, and we believe that we're approaching the next century with a positive attitude that Canadian and Ontario farmers can deal with the competition out there, providing that governments work with us and be our partners.

If I can go through the recommendations which are found immediately at the start of our brief, I'm going to go through them fairly quickly.

First of all, as I've just said, we want to be able to work with government in order that you help us and work with us, to leave us with the necessary tools of our trade. You can't send us into that global marketplace, for those who choose to be global marketers, without those tools; otherwise, we're going to end up like missionaries in the cooking pot.

Chapter 5 deals with a number of issues around safety nets. I have no intention of getting into the details of the somewhat complex nature of safety nets this morning. It

is enough to say that there is a deal on the table from the federal government. There is a component of additional funds in there from the Ontario Ministry of Agriculture, Food and Rural Affairs. We are willing to work with both levels of government to ensure that the farmers of Ontario have the necessary safety nets they need to be able to carry on for the future, in an industry where from time to time, beyond the farmers' ability, there is the need for extraordinary aid, which is provided by safety nets.

Chapter 6 is an important one, and it deals with the need for the province to make a larger commitment to agrifood research and biotechnology. As an example, the province of Saskatchewan, under the leadership of Premier Romanow, has basically seized nearly half of the agrifood biotechnology research in this country, simply because the province of Saskatchewan is committed to its agriculture. They are going to make a real industry and they're going to have real economic benefits for the province of Saskatchewan by using the resources they have there for that. It seems somewhat ironic to the OFA that in a province like Ontario, where we have the University of Guelph and countless other research facilities, this province wouldn't be placing more emphasis on agrifood research and that type of thing for the total economic benefit of the province.

Chapter 7 deals with a range of issues around agricultural training. We have in Ontario, as you well know, the Ontario Agricultural Training Institute, better known as OATI. The federal funding for that has been under some jeopardy for the last little while. From time to time we do need to come to the province to ensure that we still have provincial support. Again in our brief, we are recommending to the government of Ontario that it does continue to provide support in cash or in kind where necessary to ensure that we can continue to develop a training culture for our farmers in order that long-term professional development is available as we move into a somewhat different environment in agriculture for the agriculture skills that are needed.

#### 1110

Chapter 8 is an exciting one and deals with the environment. We have made some tremendous strides over the past three or four years in agriculture in developing environmental farm plans. We have a whole range of proactive issues, some of them centred around AgCare, one of our coalition organizations, where we have made tremendous improvements on the farm. We're dedicated to environmental remediation, and the exciting concept we put forward today is to join with the farm organizations and the federal government in establishing a revolving environmental fund where we can put money into long-term remedial action on our farms.

Many of these issues need significant amounts of capital, and we believe a revolving fund, similar to the tile drainage loan program, would be an excellent use of taxpayers' money. We would like to get this thing kickstarted with federal and provincial funding. We could maybe get into more detail on that, if you need, later on.

Chapter 9 centres around the Niagara tender fruit lands program, which provides easements for eligible properties

in order to conserve agricultural land which is deemed to be in the best provincial interest. We simply say that we hope that experiment works. We encourage government to watch it carefully and maybe put more money into it in the long term. It may well be that we need to offer that program beyond the Niagara situation, and down the road it may need to be extended to other areas of the province where there are significant farm lands that are deemed to be of benefit to society which need protecting. This Niagara tender fruit land program may be the pilot project that we should be using for that.

Chapter 10 deals with the old chestnut of farm tax rebate. You will know that the order in council expired at the end of 1994. Ontario farmers are very nervous about the fact that they're now going to 1995 with no commitment at all other than a verbal commitment from all the parties about the long-term future of the rebate. Clearly, we wouldn't need the rebate at all if any government dealt with the basic issue of the unfair taxation to start with, but until such time as we can deal with the basic inequity, the OFA is calling upon the government of Ontario to send a long-term signal to farmers that their rebate will not be tampered with. We're not interested in making it a political football. We've been promised that it's cast in stone; I have yet to see the tablets it's carved on. That would be very helpful to us.

Chapter 11 deals with taxation issues. In particular, we are supportive of integrating the provincial retail sales tax with a national sales tax based on the same principles as the federal GST, and we encourage the government of Ontario to continue to explore those possibilities. We think that would be of benefit to our industry if those taxes were combined.

Chapter 13 deals with tobacco issues inasmuch as we believe that the government should continue to keep our taxation regime in line with neighbouring jurisdictions.

Finally, in chapter 13 we deal with some Ontario Hydro issues and remind you that Ontario agriculture is the second-largest, or maybe even the largest, direct-billed user of electricity in this province, yet many times we get forgotten in the shuffle when industry gets breaks. In the last go-round when there were some reductions, agriculture was once again neglected. So inasmuch as the government of Ontario has any control at all over Ontario Hydro, we ask that the agricultural component be dealt with.

In a nutshell, that's our brief. There's an awful lot of detail in there and I think it might be useful to leave as much time as we can for questions.

**Mr Paul Klopp (Huron):** How are you doing, Roger? Good to see you again. You make a number of good points. As one who's been around these things for many, many years, I think a lot of it has been discussed, and it's good to have these points brought forward to government at any time.

I think this government has recognized the importance of agriculture. I can remember a bureaucrat telling me that they don't even need a Minister of Agriculture, period, because the government doesn't listen to him anyway. I said, "I guess we'll throw that rule book out." Then I was told that agriculture was actually 18th on the



list of ministry importance in the Ontario government. As a political person, I guess that didn't surprise me; I couldn't believe it, though. But, sure enough, we now have the Minister of Agriculture in the senior cabinet positions at all meetings, recognizing the financial importance. Frances Lankin, industry and trade: I think you're aware of that. Many farmers have told me they're pleasantly surprised now that they can talk to Frances Lankin and she always is aware of issues that happen in agriculture. We can look at many policies that have had to be modified to recognize agriculture.

The issue around taxes being put together: I can understand the argument, and I read that part of the brief and I've been aware of trying to stop duplication, and we're all for that. But one of the issues over two years ago was that integrating PST/RST into the GST formula was going to take about a half a billion dollars, \$500 million, into the coffers of the Ontario government, which we could have no doubt used to lower the overall expenditures etc. Some of those things are what we buy at our farm: clothing for my kids, books etc. Do you have any thought on that side of it? Other businesses, myself included, talk about those policy lines and red tape, but the overall issue was another half a billion dollars out of the taxpayers' pockets. I know on my farm we buy some of these things. Have you given any thought to that side when you talk about women's clothing etc?

**Mr George:** Our specific reference deals with the input taxes on some of our farm goods, and we do have a number of things we buy on the farm where we now pay the 8% provincial sales tax. The element in our brief spoke about being able to recover that, the same way we do with GST. If I could recover all the provincial sales tax I pay on some of my inputs, particularly building materials, which has been a long-standing issue for farmers as we invest in new buildings and that type of thing, I'm sure that the sales tax I could find would enable me to get enough money to buy clothes for my wife.

Cecil may want to embellish a little the advantages of combining the two sales taxes from a business point of view from our farmers.

**Mr Klopp:** I realize all that. I'm just talking about the other side of the coin. Some farm women I talk to say that this is quite an issue. When you look at the overall—and that's fair enough.

**Mr George:** If you're embarrassed about collecting the extra half a billion dollars, you could always lower the provincial tax rate.

**Mr Klopp:** On the issue of the commitments to NISA and GRIP, I think we've been very clear in leading the charge. The Premier has made that commitment a number of times, that this government will not play the games of promises and then change it. I've been in too many of those games: interest rate rebate programs where it's 100% during the election and, whoops, down to 25% the following year. It's awful hard to plan. So I think that commitment is there and we will work at that.

On the budget itself, your good point about the loan programs to assist farmers or whatever, do you think things like FarmPlus and issues like that—it's for any

kind of loans, but do you think we need to maybe promote that even more? I've even had some people on the green side who actually want to invest dollars, who want to get to our caisses populaires/credit unions that have these programs in place. Is there any way you can help us to get that promoted on that side? Maybe we can get even more dollars out there.

**Mr George:** On the whole investment strategy, I think there are two or three of those components which are quite exciting that obviously we can build on. Over the last three or four years we have a whole new attitude towards the farm loans and the farm credit end of things, and we're now obviously able to do it for a lot less money than we did before; maybe things we can more afford.

Based on what we've got with our commodity-based loans and our FarmPlus and those types of things, I think there is always room to improve and room to market. Certainly the FarmPlus angle is one that OFA would be interested in working with any government to promote, and maybe we need to extend it beyond the credit unions and the caisses populaires, because it isn't every region of the province where there's agriculture that's got access to those local institutions.

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**Mr Klopp:** Finally, with the farm tax rebate, I know it's something that I've been around since 1971 and I think it's been every year that every government has tried to say, "We're going to get it fixed and this year we'll keep it." Then the lobbying—although I do believe the Premier made a commitment at the OFA convention that this is going to be there till something can be changed. We had the Fair Tax Commission. It is a tough issue.

Do you recall back about 1980—something when the Minister of Agriculture actually went out and said we were going to get rid of the farm tax on land and actually the farm community—of which I wasn't part, but I know it was a tough issue. I was on the other side. I agreed with the then minister. It was actually turned down. Do you think that won't be out there again, that kind of discussion?

**Mr George:** I think you're going back as far in the past as Premier Davis and Minister Timbrell, and I don't think it was the farm community as much as five or six well-organized people who got some hysteria going out there about the issue: If you didn't pay taxes on the farm, you wouldn't own the land, which is absolute nonsense, but the Premier got cold feet and nothing happened.

**Mr Klopp:** You don't think that will happen again.

**Mr George:** We were encouraged to a large degree with the recommendations of the Fair Tax Commission and I hope that at some point in time there'll be a government of Ontario that's prepared to take a look at this very difficult issue. Until such time as that happens we're going to find ourselves with a farm tax rebate that's in excess of \$150 million.

**Mr Kwinter:** Mr George, thank you very much for your presentation. In chapter 3 you talk about the successful conclusion of the Uruguay round of the GATT talks and its successor World Trade Organization, and

you say that as a result those agreements have "forced the Ontario agricultural community to re-examine its production and marketing arrangements." But then you don't go on to say what that re-examination has led you to. Do you have some information for us as to where you see those particular international agreements affecting what we do in Ontario?

**Mr Cecil Bradley:** I think the changes that are being provoked by the new GATT agreement or the World Trade Organization are primarily in supply-managed-product areas, and there are national processes going on—they have been going on for quite a number of months now—in dairy and poultry to try and develop a marketing arrangement which is consistent with the new trading rules.

That's all being done in a context of I think profound uncertainty originating from south of the border. There doesn't seem to be any assurance that our main trading partner is prepared to recognize the GATT arrangement for the tariffication of supply-managed-product import quotas and so on. So even while the dairy and the poultry industries are trying to rearrange their marketing to, I suppose, become more market-responsive, they're a little bit puzzled as to which way to jump given the unwillingness of the US to come to terms with the provisions of the GATT agreement. I think probably anybody who's been following the papers in the last year or so knows the kind of bilateral disputes there have been on peanut butter and sugar-containing products. Just—what was it?—10 days ago the US formally asked for consultations under NAFTA on chicken and poultry tariff levels.

**Mrs Elinor Caplan (Oriole):** I appreciate the presentation that you've made before us today. While we don't have any farms in Oriole riding, all of the constituents know what an important role Ontario farmers play, not only in our economy but in our quality of life.

What I'm hearing from my constituents is their concern about fiscal responsibility. Within your recommendations to this committee, I've noted some of the recommendations would actually carry a pricetag. The question I have for you is whether or not you're recommending an overall increase in funding or whether you recognize that there might be opportunities for moving funding around to use it better in the area of support for agriculture, because clearly there's not going to be much new money available for quite some time in this province. Taxpayers, rightly so, are saying, "No more taxes."

**Mr George:** The issue of funding: I draw your attention to chart 4.1 on page 15 of our brief, where we do point out the historical decrease of the share of our budget in the provincial economy. Again, if we recognize that agriculture and agri-food is a major segment of the economy, we're somewhat puzzled as to why our budget should have to shrink that much.

We're always interested in looking at ways to better use the funding we have, and I think, as I mentioned to Mr Klopp, with our investment strategy we've moved away from all this ad hocery and some of the programs that cost us tens of millions of dollars back in the 1970s and 1980s are now replaced with farmer-driven programs based on the new realities. They are innovative and

exciting efforts and, to the extent that we can work together with government to get a better bang for the dollar, we will.

I spoke about the environmental revolving fund. Again, far better than just flinging money out to the winds, let's put a system together where we can put a pool of money together and have that money revolving back to farmers at low interest rates or whatever so that it continues to regenerate itself. I'd like to see it administered jointly by government and the farm community. We've got examples of that within our investment program, with the Agricultural Commodity Corp, which is a joint venture of the farm community and the government of Ontario.

We've made a lot of progress, I think, over the last five years in taking grasp of some of these issues and we're not looking to be throwing money at the problems willy-nilly like we did in the past, but we are interested in making sure we've got that commitment, that there is funding there in the long term. You have to invest in order to get rewards here, and we're saying agriculture and agri-food is a good place for the government of Ontario to invest for the future of the province.

When we talk about agricultural research, that's a very good, demonstrated place for government to put a lot of money, because we can get a 40% return, in many cases, on agricultural research and the benefits come back to society over a period of time in the form of jobs and economic activity way beyond the farm gate.

**Mr Phillips:** You were saying that recommendation 8, I think, was one of your key recommendations, and you just talked about that and this investment fund. Can you give us just a very quick explanation of that fund and how it will work and what sort of funding—

**Mr George:** Over the last four or five years we've had \$5 million of federal Green Plan money. We've developed what we call environmental farm plans, and we're going through a process now where farmers are voluntarily putting together confidential assessments of their farms. In many cases the farmer may identify the fact that he has a manure storage problem and, in order to prevent any runoff getting into the water system, in some cases that may need a \$30,000 or \$40,000 capital investment on the farm. We are suggesting that we have a block of money—and if there's ever going to be a Green Plan II, that would be a good place to attract federal money—in an environmental partners trust fund, of which the Ontario Farm Environmental Coalition would be a key player. That money would be loaned over a period of time, maybe a 10-year loan, and as that money gets repaid back into the system, the fund sustains itself.

We did that in tile drainage some 15 to 20 years ago and I think we could argue the case that for a fairly minimal investment on behalf of the province, probably \$10 million or \$15 million way back then, we have been able to tile-drain thousands of acres of land and create a whole bunch of economic activity, much of which goes beyond the farm gate.

**Mr Gary Carr (Oakville South):** Thank you very much for a fine presentation, as usual. I was sitting here thinking that the next government, if it was to take these



in-depth proposals and implement some of them, we'd be a lot better off. So thank you as usual for doing a terrific job. I know your ongoing effort goes on even in between in putting all this together and letting the various parties know. So thank you very much.

I want to ask you a question regarding Bill 91. I want to see if the OFA favours the repeal of Bill 91.

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**Mr George:** Mr Bradley is our labour guru.

**Mr Bradley:** No. We're not calling—when I say “we,” I'm talking about our coordinating group in Ontario that was set up in early 1991, the labour issues coordinating committee. The OFA has provided secretarial and staff support to the committee, but the committee as a whole is broadly representative of the farm groups in Ontario that have a particular interest in the labour issue. Fruit and vegetable growers, tobacco growers, floriculture and that sort of thing are prominent players on the committee. The committee's view and advice to the various farm organizations which support it is that collective bargaining and the right to organize is an acceptable arrangement in Ontario, provided in the agricultural instance those rights are exercised in a framework which respects the unique qualities of agriculture.

The legislation goes a long way towards recognizing the unique situation of agriculture. Strikes are precluded. There's a dispute resolution mechanism called final offer selection mandated by the legislation. The legislation provides a basis in statute for an agricultural labour-management advisory committee to advise the minister on the ongoing administration of the act. That committee is going to have a hand in picking the vice-chair for the agricultural panel of the board and is going to be involved in the development of education and information programs.

I think the sense around the labour issues coordinating committee in the last several months is, “Leave it; let's see how it works.” I think people are prepared to work within the legislative framework that is there and try to see that it can be implemented with the least disruption to farm businesses.

**Mr Carr:** The next question I have is, in the past you have voiced some concern over the WCB and various aspects of it. I wondered if you could maybe address some of the things specifically that need to be done to address some of the Ontario agricultural perspectives with regard to the WCB.

**Mr Bradley:** Can you wait a couple of months?

**Mr Carr:** Obviously something's in the works. Okay.

**Mr Bradley:** Yes. The farm organizations have had a sporadic history of involvement with workers' compensation issues. They were involved in the NEER exercise quite heavily back in the late 1980s. Then the level of involvement has tended to drop off.

With the headlines accorded to workers' compensation in the last couple of years, particularly with the appointment of the royal commission to take a comprehensive look at workers' compensation, the labour issues coordinating committee is going to develop a brief to the royal

commission which we hope will set out our major concerns with workers' compensation, the way it operates as it affects farm businesses. We expect that we will find several recommendations for improvement in the system. We're looking for an early May presentation to the royal commission, and at or about that date you should have our best critique of workers' compensation as it affects farmers, and some of our suggestions for improvement.

**Mr Carr:** Just in time for the new government to take over and implement them.

**Mr Bradley:** Is there going to be a new government by that date?

**Mr Carr:** I'd bet my mortgage these guys won't be back, but I won't go further than that.

One quick question on taxes. You mentioned in here the problem with the taxes and you went through it very comprehensively. One of the things we've called for is a reduction in taxes, a 30% reduction in personal income tax. For the average household, two people making \$25,000 for a combined household income of \$50,000, the savings will be about \$4,000 over the next three years. I was just wondering what your comment would be, what some of your members would feel about reducing the taxes in the province of Ontario. Do you think they'd agree with that?

**Mr George:** I'm sure we'd all agree with reducing taxes for farmers. I just wish we were in the position where income tax is the biggest worry of our life. I look forward to the day when we get resolutions coming into our board where farmers are worried about their tax position. If it weren't for the off-farm income that is brought into our farm families, we would be in a terrible plight indeed because the net farm income in this country is a national disgrace.

**Mr Carr:** Thank you very much and good luck.

**The Chair:** I thank the Ontario Federation of Agriculture for its presentation this morning.

**Mr George:** You're welcome, Mr Chairman.

**Mr Randy R. Hope (Chatham-Kent):** Mr Johnson, can I just ask legislative research for some information, if possible, or do you want me to wait?

**The Chair:** What do you need?

**Mr Hope:** I can ask now. It's very short and simple.

**The Chair:** Sure. Do you want this on the record?

**Mr Hope:** Yes, I'd like it for the committee because I think it's been thrown out this morning.

**The Chair:** Okay. Just hold for one second. We're just going to take a second to hear Mr Hope. He has a request of research.

**Mr Hope:** This morning, dealing with the home builders' association presentation, they talked about interest rates and debt. When we had the last recession, between 1981 and 1982, there were high interest rates of 23%. I wonder what the debt calculation was at that time comparable to what it is now around the debt calculation and the interest rates, because that's been thrown out quite a bit. I don't know if you're able to get it for this afternoon; we have the bankers coming forward this afternoon and it would be nice to—

**Mr David Johnson:** Mr Chair, this is something he can get by himself. What does this have to do with the workings of the committee? He can get that information separately.

**Mr Hope:** Wait a second. I have a right—

**Mr David Johnson:** That's the kind of information a member should get separately. Really, he's just taking an opportunity to speak further than most of us.

**The Chair:** He wants this information for all the committee members, Mr Johnson.

**Mr David Johnson:** He can get that information and he can provide it to us.

**The Chair:** If you don't need it or you don't require it, that's quite all right.

**Mr David Johnson:** Well, should I ask then? Should I take the time of the committee to ask for all the extra information that I want at this point too?

**The Chair:** If you think there's relevant information that committee members might require, you can certainly raise it with the Chair and the Chair will hear what you have to say.

**Mr Hope:** I asked the Chair first.

**Mr David Johnson:** He's going beyond the bounds.

**Mr Hope:** I asked the Chair if it was possible—

**The Chair:** At this point in time, I think the question has been noted—

*Interjections.*

**The Chair:** Order, please. I think the question has been noted.

#### ONTARIO FOREST INDUSTRIES ASSOCIATION

**The Chair:** The Ontario Forest Industries Association has come forward. I remind you that you have 30 minutes within which to make your presentation and field questions from the committee members, and if you could identify yourselves for the purposes of Hansard.

**Ms Marie Rauter:** Thank you very much. I am Marie Rauter and I am president of the Ontario Forest Industries Association. I have with me today Martin Kaiser, who is our policy manager. We certainly are very pleased to have this opportunity. I would like Mr Kaiser to start and then I will continue.

**Mr Martin Kaiser:** The Ontario Forest Industries Association is a provincial trade association representing 20 member companies performing forest operations and manufacturing pulp, paper, paperboard, lumber, veneer, plywood and panel products throughout the province. Ontario's forest industry is a significant part of Ontario's economy, and we welcome this opportunity to participate here today.

In our submission on the 1994-95 budget, we focused on a few key points. We addressed the fundamental changes the forest industry has made to ensure its competitiveness and the tremendous opportunities for it to grow and contribute to a healthy provincial economy, and the need for government to contribute to that effort by becoming more efficient and effective and taking a hard look at its costs and by working in partnership with the forest industry.

We believe that this industry's performance in recent years bears out the value of hard decisions made in prior years and that these decisions have positioned us for the growth we're beginning to see. We also believe that the province faces a financial situation which is far more serious than that recently faced by the forest industry. Government will have to make some hard decisions if this province is to re-establish a competitive economic system. Before addressing our recommendations, we will provide an overview of the industry's recent financial performance.

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Following record losses in 1991 and 1992, the Ontario primary forest industry began to turn the corner in 1993, with most sectors seeing improved financial performance. This improvement is evidenced in the attached graphs, which show that in 1993:

—Total sales increased to \$4.4 billion from \$4.1 billion in the prior year. This is largely the result of improved prices for solid wood products, increased production levels and a drop in the Canadian dollar.

—Net losses fell to \$121 million, a drop from \$382 million in the previous year, again an indication of improved prices but also an indication of the cost reduction initiatives which were carried out.

—Return on capital improved to 0% from a level of minus 4.1% in 1992, providing further indication this industry has turned the corner.

—Finally, capital expenditures increased to \$311 million from \$222 million in the prior year, an indication of this industry's continued commitment to Ontario.

One result of this small improvement is that the industry's payments to governments increased to \$785 million, as indicated in table 1. In fact, every dollar in sales generated by Ontario's forest industry generated 18 cents for government, with 10 cents per dollar of sales, or \$449 million, being contributed to provincial and municipal revenues. You'll note that income tax and stumpage are two areas where increase was most significant. Both of these areas respond to profitability and increased activity in the industry.

While the industry's sales, earnings and return figures are encouraging, others clearly indicate that the industry has a long way to go to regain the financial strength of the late 1980s. The industry's debt-to-equity ratio remains high at 0.85 and employment continued to decline in 1993, though the rate of decline slowed. The industry's recovery gained strength in 1994 with increased production and shipment of Ontario pulp and paper and solid wood products, and improving prices for most product lines.

Indeed, the forest industry, along with other export-oriented industries, has played a major role in the improvement of the provincial economy in the last year. Continued improvement will be required for this industry to regain its competitiveness, and this government's actions will impact that effort.

**Ms Rauter:** We believe that there is a road to prosperity, and it means getting back to fundamentals. Although the forest industry is cyclical and we do expect



downturns, the recent recession is the worst ever experienced by this sector. We are now starting to experience a recovery, but that recovery is tenuous. To remain on this road to prosperity, we must make sure all the fundamentals are right.

Government can facilitate the recovery of the forest industry and other key economic sectors and thereby reap the benefits of a strong industrial base. In order to do so, it must also make the hard decisions and create a competitive economic system in which industry can flourish. As you saw from some of the earlier comments, 18 cents on the dollar comes to government, and if the industry is paying taxes, the government is going to do well. Government must get the fundamentals right. It must become more efficient and more effective in the delivery of its services. This industry is willing and is able to work with government towards this end.

As a resource industry, we are more dependent on government than many other industry sectors, because most of our fibre comes from crown lands and most of our energy through Ontario Hydro. These monopolies do not allow for competition for our raw materials in the open marketplace, yet our final products are subject to competition in the international marketplace.

The need for a close working relationship is therefore critical, as it benefits both parties. Over the past two years, many members of the forest industry devoted a great deal of time to developing a new business relationship with the Ministry of Natural Resources. As a result, most companies holding forest management agreements have taken on the added responsibility of funding their renewal efforts, thereby reducing the financial burden on government and promoting a more effective forest management effort.

Part of the discussion on a new business relationship dealt with the need for a new stumpage system, one that would quickly and accurately respond to changes in the markets for our products. The industry was initially encouraged by government's willingness to jointly develop a new system, but was disappointed that this joint effort was quickly terminated and that the MNR introduced the new stumpage system in October 1994 with little thought for its far-ranging impacts. The result is that the new system and its impacts are not well understood by either government or industry and its implementation has created a great deal of uncertainty in this industry.

The treasury of Ontario can benefit greatly from a stumpage system which ensures that government revenues increase as the industry's profitability rises. However, the system must also respond to the inevitable downturns that the forest industry will face. The key to achieving these objectives is working in partnership. While the MNR has now established a joint government-industry working group to address issues presented by the new system, this province and industry would have been better served had a partnership approach been taken from the outset.

Our first recommendation is that the MNR work closely with the forest industry to refine the new stumpage system in a manner that ensures it respond to the cyclical nature of the industry.

Under its Forests Moving Forward initiative, the MNR is pursuing further opportunities to shift responsibilities to industry. If this government believes in the partnership concept, then this ministry must work closely with the forest industry and have thorough discussions on the financial difficulties of the ministry, the programs that need to be delivered, the programs that are no longer affordable, the best delivery system, and who should share the costs.

The MNR has accepted the concept of user pay, an approach that has been recommended by both the Ontario Round Table on Environment and Economy and the Ontario Forest Policy Panel, yet we see downloading of government costs to this industry and do not see the sharing of costs by the other users of the forest. There must be equity in how these costs are distributed. Where there are other users of the forest, these users must contribute their share of the costs.

Our second recommendation: The MNR must work closely with the forest industry and have thorough discussions on the financial difficulties of the ministry, the programs that need to be delivered, the programs that are no longer affordable, the best delivery system, and who should share the costs.

The third recommendation: Where there are other users of the forest, these users must contribute their share of the costs.

The efficiency and effectiveness of government and its agencies also has a direct impact on the forest industry. Ineffective process is one of the greatest impediments to efficiency and is costly to both government and industry. Processes must be streamlined so that they are effective and results-oriented. This has been advocated by several groups and accepted by this government, yet there are too many instances where only lip-service is paid to the concept.

The myriad of lengthy, unproductive consultation processes carried out by the MNR and the Ministry of Environment and Energy at great cost in recent years has hindered all parties' ability to provide effective input on policy development. The approvals process of the MOEE has severely hampered the ability of our members to pursue cogeneration opportunities that would enhance their energy generating abilities and contribute to their waste reduction objectives.

Each ministry should and must examine the various consultation and approval processes in place and report whether they are necessary and, if so, how they can be made more efficient and results-oriented.

Improved efficiency can provide benefits directly and immediately. An example is Ontario Hydro, which has provided industry with some relief through its recent pricing policies. While this is acknowledged, it is only a small step. There is a long way to go before Ontario's electricity rates are competitive with other jurisdictions. We urge Ontario Hydro to continue its focus on efficiency and on rate reductions and reducing its debt load.

The Ontario government must also direct its efforts towards eliminating duplication of effort between itself and the federal government. Both the federal and provin-

cial governments have introduced environmental legislation in the last few years. The federal government has been working with the provinces to develop a single-window approach for the administration of regulations on pulp and paper mill effluent. It has signed agreements with Quebec and British Columbia, which have comparable legislation to Ontario, yet Ontario has not yet come to an agreement with the federal government that will make the system more efficient while ensuring environmental responsibility. This delay is costly and puts the Ontario industry at yet another competitive disadvantage compared to companies in provinces that have come to an agreement.

Our recommendation is that Ontario sign an agreement with the federal government to ensure a single-window approach for monitoring of the pulp and paper mill effluent regulations as soon as possible.

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In conclusion, this province and this country are in financial difficulty. That trough where governments have traditionally gone to get more water has dried up. There is no more. The international banking community, by dropping Ontario's credit rating, has been trying to tell us something. We cannot afford this rate of spending. That drop in credit rating cost the people of this province millions of dollars in additional interest payments. We cannot afford another drop.

It is no longer sufficient to just say that Ontario will balance the budget. We must get beyond a balanced budget and start to pay down the debt. Government must be fiscally responsible. It is not fair to mortgage the lives of future generations on this generation's inability to get its house in order.

Ontario's forest industry provides an example of the benefits of making the hard decisions. They are not easy to make, but they are essential and they do pay dividends in the end. They have positioned this industry to prosper in the coming years.

Government must also make the hard decisions, making sure that it delivers the essential programs in an efficient and effective manner. In this way, Ontario can re-establish a competitive economic system and pave the way for renewed, sustainable growth that will benefit all Ontarians.

**Mr Kwinter:** Thank you very much. I'm delighted to have got your brief, and I can tell you that I certainly appreciate the contribution that you make to the economy of Ontario.

There are a few areas I'd like to explore with you. In your FMAs, are you satisfied that you're getting security of supply of fibre? I know that a few years ago that was a major problem, and it was one that concerned a lot of the forest industry operators.

**Ms Rauter:** We have a couple of concerns on two fronts: One is that with this new legislation, the forest management agreements are no longer forest management agreements; they are forest management licences. There has been a difference of opinion as to how secure is the tenure and the future wood supply. That is still a very real concern of ours, and we are certainly hopeful that as

time goes on we will have the tenure that we had in the past with the forest management agreements.

There is another concern that we have, and that is available fibre to be able to sustain not only the existing mills but some of the new mills that are being proposed, not only in the short term but in the long term. We're very concerned about the state of the inventory and where that will be taking us into the future. So yes, we do have some very major concerns.

**Mr Kwinter:** Another area I'd like to get your comment on is that I've noticed in the media in the last little while companies like Abitibi-Price are raising the price of newsprint. Is that an indication of world shortage, is it an indication of better productivity or is it just a matter of the Canadian dollar being where it is? How is the industry going to respond if the dollar goes to 80 cents?

**Ms Rauter:** It's a combination of all three. This is where I say that in terms of making some of the hard decisions over the last few years, you'll have seen that most of the companies have restructured and their productivity has increased tremendously, so we are trying to be competitive on that international market. Certainly the lower Canadian dollar is helpful, because we are an export market.

In terms of world supply, yes, there is a tremendous shortage of world supply, and most of our Canadian companies right now are operating at capacity. We anticipate in the future that for at least the next few years there will be a tremendous demand on wood products, and Ontario has a real opportunity to try and take advantage of that world supply. We just want to make sure that government has the fundamentals right so that we can be part of the picture of that growth.

**Mr Kwinter:** Given that a lot of investment in your sector is moving into regions of the world where they have shorter growing cycles, do we have the technology, do we have the will to compensate for that?

**Ms Rauter:** If we have good forest management, we have the potential to reduce our growing cycles considerably, to increase our productivity on a piece of land considerably and to be able to compete with many of those other jurisdictions of the world. It's a number of criteria that we have to put together, and certainly the cost of wood is one of them; the cost of energy is another. If those two factors are competitive, I think with our workforce and our infrastructure and the quality of our product we certainly can compete with just about any jurisdiction in the world, but there are some fundamentals that we have to have right.

**Mr Kwinter:** I know that one of your recommendations is that the Ontario government enter into an agreement with the federal government on effluent regulation. I know at one time the industry was concerned that the regulations were too stringent and couldn't be met with the current technology. Are you happy with the federal regulation, and do you feel the industry can comply?

**Ms Rauter:** With the federal regulations, we're quite pleased, and I think we can work with the federal regulations with no difficulty at all. With the MISA regulations,



there is not a defined zero limit for the chlorine issue; it's to attempt to get to zero. Depending on the wording of that MISA regulation, we can probably live with it, but it depends upon what the government of the day will think about some of the periodic reports that are put in with respect to the kinds of research work they anticipate industry will do in the interim.

**Mr Kwinter:** I also notice with interest there's been a substantial increase in the capital investment in your industry. One of the knocks against the industry has been that there has been no capital invested for about 40 years. Where do you feel the industry stands vis-à-vis the global competition?

**Ms Rauter:** For the last four or five years, this industry has put very little into additional expenditures because there was no money to be had. Now that the prices have started to increase, they are going back into upgrading and trying to make some of their equipment more competitive. There are substantial dollars that will have to be spent. They have spent tremendous numbers of dollars in environmental improvement, because they are an environmentally responsible industry. With these dollars and with some of these improvements, I think some of our machinery and some of our capability is as good as any in the world. It will not be as good as some of the greenfield mills that obviously are being put up in other countries in other jurisdictions where they're starting from scratch. It's always easier to start from new than it is to modernize.

**Mr Carr:** Thank you very much for a great presentation. It was nice to see you again. I spent some time on the bill in the summer, as you know. We went all over Kapuskasing and we were all over the north and it seems like only yesterday we were together. I thank you for not only the presentation today but also for your efforts during that bill as well.

I was particularly impressed with your conclusions. I think you did a great job. I want to refer to page 3, your number one recommendation, which says you want the Ministry of Natural Resources to work closely with the forest industry to refine the new stumpage system. You go on to say the industry "was disappointed that this joint effort was quickly terminated, and that the Ministry of Natural Resources introduced the new system...with little thought for its far-ranging impacts...and its implementation has created a great deal of uncertainty in the industry." That first recommendation would seem something that any government should do in working with you.

What happened and why didn't this come out and what has it meant to you as a result of some of the problems?

**Mr Kaiser:** The initiation of the stumpage system, the review of a new stumpage system, took part under the new business relationship and the negotiations that were happening around framing that. It was one component. Early on in the process, after there were some initial meetings with industry and government to frame the principles and approach of a new system, discussions were essentially ended on that component of the negotiations and negotiations went forward on the silvicultural trust fund, which industry very much supported.

So while the industry very much supports the stumpage

system and the notion of a more responsive market-based system, there was a great deal of work which had to be done between the framing of principles and the implementation of a new system. Unfortunately, that work didn't happen prior to the implementation of the system in October and we now have a very complex system which, while it can be somewhat effectively applied in the major sectors such as newsprint and pulp, the myriad of other subsectors—red and white pine producers, OSB plants, sectors like that in the system—it becomes very difficult to recognize the differences there, to respond to the market realities in those sectors and to not have significant negative impacts on investment in each of those sectors.

**Mr Carr:** Where are we at then in terms of going back and readdressing that? You can maybe comment why the government didn't see this coming but, more importantly, what can we do to eliminate? Where are we at now in the discussions with the government and are you confident that we're starting to head in the right direction?

**Ms Rauter:** One of our disappointments, I think, at the front end is, we had asked for a committee to be set up almost immediately when we first saw that stumpage system come out, and it would have taken at least three months, I think, before we got a response to set up a committee. Now they are in the process of setting up the committee but they still have not met yet and we're five months into the system. Martin, I don't know if you have a meeting date yet.

**Mr Kaiser:** Shortly.

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**Mr Carr:** With regard to Ontario Hydro and reducing the cost of power, as you know even the OFA that was in before you—you heard their presentation comparing the cost between Quebec and Ontario and that's the one thing that we had an advantage as a manufacturing province for many years: power at cost. One of the reasons we became a manufacturing province was because of that, and that's slipped away. You mentioned some of the focus on reducing the cost of power. We've called for a five-year freeze on Ontario Hydro rates, but what else can be done in terms of reducing the cost, as you see it, looking at an organization like Ontario Hydro? Is there anything else that you can suggest needs to be done, because all parties need to tackle this, and want to.

**Ms Rauter:** One of the things is to take a look at cogeneration and the wheeling of power, for Ontario Hydro to be willing to wheel the excess power from cogeneration, because I think there is one major area we really could make some substantial savings on. The forest industry and the mining industry are the one-two big users of Ontario Hydro. So there are some other sectors that hydro, sure, it's a component of cost, but in the forest industry it's a major, major one, and certainly cogeneration would be one very effective way.

**Mr Carr:** As you know, this government I think in its discussions has said it's not going to proceed that way. What are you doing in anticipation of governments changing, getting ready for discussions? Is there anything you're doing? I think you're right; it is a big percentage

of your cost. Where are we at with this, and how soon can we implement some of these things?

**Ms Rauter:** We have a number of position papers on several different areas in terms of where we think things can be improved and managed, and whatever the government of the day, we will be very happy to work with anyone in terms of trying to address what some of our concerns are.

**Mr Carr:** And some of these projects, in your estimation, can go ahead fairly quickly.

**Ms Rauter:** Some can go fairly quickly, some are just straight decisions and some of them will take some work and some thought and working together to try and move things forward.

**Mr Carr:** Good. Thank you very much and congratulations; a great effort. We look forward to continuing to work with you.

**Mr Wiseman:** I appreciate your presentation. There are some concerns that I have about what's happening in the economy in Ontario. I don't know if you heard, but I'm particularly interested in and concerned about the interest rates and the policy of the federal government, both Liberal and Tory, that the increase in interest rates is designed to keep people unemployed. How sensitive is your industry to an increase? For example, we heard that a 1% increase in interest rates in Ontario would put approximately 20,000 people out of work. How many of those people would be from your industry in a 1% increase in interest rates?

**Mr Kaiser:** We couldn't tell you certainly how many people that would put out. It would certainly have an impact. Even with a heavy capital structure, the industry, particularly with this current debt-to-equity ratio, is impacted significantly by interest rate increases.

**Mr Wiseman:** The other side of that, the flip coin to that argument, is also that when the interest rates go up, the value of the dollar goes up, and we have heard from the mining sector, or we will this afternoon, that when the dollar starts to go up, it can tell us how profit-sensitive it is. How profit-sensitive is the forestry industry in terms of the value of the Canadian dollar?

**Ms Rauter:** As the dollar goes up, we have individual companies that it means a difference of several million dollars on their profit line, but even if the dollar goes up today, this is one of the reasons that the companies have really tried to restructure so that they are more competitive internally in their infrastructure. But, yes, certainly the Canadian dollar plays a tremendous role.

**Mr Wiseman:** My next question has to do with the whole controversy between Canada and the United States over stumpage fees. While we've won a couple of rounds, it seems that we spent an awful lot of time in courts and so on. I thought the free trade deal was supposed to put an end to that. Where are we at now in terms of that issue? I understand that there's lobbying now by forestry-dominated senators to go at this again.

**Ms Rauter:** And they probably always will. But we won this last round, we're getting our money back, and the only reason we're getting our money back is because of the free trade agreement, because that free trade

agreement gave us a binational committee, and it was that binational committee that decided in Canada's favour. The Americans kept appealing it, but it played out at the end of the day we're getting the money back, and what is now currently under negotiation is that the Canadians and the Americans are working very closely together to try and ensure that this will not happen again. But it was because of that binational committee; it is the only reason we won. That was one of the reasons we lost some of those earlier rounds, because we did not have a free trade agreement.

**Mr Wiseman:** My next question has to do with alternative pulp sources. My understanding is that there are developments now to try and find fibres that are non-forest-related that are similar to pulp and can be used in the manufacturing of paper. Where internationally are we with that and how is the Ontario and the Canadian industry responding to what looks like some interesting challenges?

**Ms Rauter:** There's a lot of research work that's been looking at alternative sources. Those of you who know your Bible will know that papyrus was your first raw material for paper. So there is papyrus, there is hemp, there's a whole variety of other materials, but in terms of the volumes, the quantity that you need to be able to produce the kinds of products that we want today, it's probably going to be a long time coming. In fact, in one of the countries in Asia that normally uses cotton for production of rayon products there was a very bad cotton crop and they've actually gone back to using wood for the production of rayon. So yes, even though there are alternative sources, you will always need wood.

If you take a look at what the projections are for the need for paper in the future, even given the electronic world that we're entering into in countries like Canada and the United States, Third World countries are going to have tremendous demands for paper. That is why it is so important that we practise sustainable forestry. Trees are a renewable resource, and if we manage good forestry, we'll have it not only for today but for tomorrow.

**Mr Wiseman:** Thank you. I just got the signal.

**The Chair:** I'd like to thank the Ontario Forest Industries Association for making its presentation before the committee this morning.

This committee stands recessed until 2 pm this afternoon.

*The committee recessed from 1206 to 1408.*

ONTARIO MEDICAL ASSOCIATION

**The Chair:** The first presentation this afternoon is by the Ontario Medical Association. I ask representatives of the association to come forward; please identify yourselves for Hansard and the committee members. I'll remind you that you have 30 minutes within which to make your presentation and field questions from the committee members.

**Dr Michael Wyman:** Thank you, Mr Chairman. I'm Dr Michael Wyman, the president of the Ontario Medical Association, and I have with me Mr David Pattenden, who's the chief executive officer of the OMA.

The contrary pressures of decreased resources and



increased demand for medical services have placed immense pressures on the ability of the system to continue to provide necessary patient care, and this government's social contract has only served to exacerbate this serious situation.

Under the provisions of the social contract, a cap has been placed on expenditures for medical services during the fiscal years 1993-94, 1994-95 and 1995-96. Any payments to physicians in excess of the prescribed cap are being recovered, dollar for dollar. In this year alone, the limit on payment for medical services is \$145 million less than the total expenditure in 1992-93, despite an aging population, a growth in population of 1.5% per year and massive reductions in hospital beds that have meant a shift to community-based care.

The profession agreed to the cap on the condition that the government would implement changes that would bring medical service volume down and so mitigate against expenditure recoveries. In that regard, government has not met its obligations. Failure to introduce new photo ID cards in a timely fashion, to establish effective public education campaigns on responsible use of the health care system, to implement regulatory changes to require third parties to pay for services they request, to remove marginal services from OHIP coverage, to initiate physician resource planning measures and to involve physicians in reforming delivery of mental health and primary care services have continued to waste tax dollars and to needlessly drive up utilization.

One part of the agreement to which government has fully committed itself is the implementation of both holdbacks and clawbacks from physician payments to meet the expenditure caps that were mandated under its social contract. In effect, physicians will have provided more than \$300 million of free services in fiscal year 1994-95 alone. Attempts to negotiate an effective means of reducing service levels, as mandated by the social contract, have met with continued and great resistance on government's part.

Meanwhile, government continues to expand provision of health care in what appears to be a piecemeal and add-on fashion. Recent government-initiated expansions of cardiac surgery, dialysis, mental health and oncology programs, while laudable and necessary, have not incorporated funding provisions for the additional physician services that will inevitably be required. Physicians are expected to be responsive to the needs of their patients, to accommodate expansions in needed health care programs, and to do this within an expenditure cap and without any effort or intervention by government to ensure control in service volume.

Matters are likely to get worse as the federal government grapples with its deficit problem. However, even as federal transfers are cut, the per capita escalator for the health care component of established programs financing will revert to GNP growth less 3%, and the EPF escalator was frozen at population growth in 1989. The federal government will make up the difference by cutting transfers in areas other than health. The distinction between cuts in health and other programs does not make it easier for provincial governments to contend with the

decline in transfer payments. Nevertheless, this action by the federal government shows the importance it, and the public, we believe, places on medicare.

The response of the government of Ontario to its own fiscal problems has been to reduce actual levels of expenditure. Operating expenditures of the government in 1993-94 are expected to be lower than in 1992-93, an occurrence that has not been experienced since 1942, and government health care expenditures are following suit. Total expenditures by the Ministry of Health declined in 1993-94 as well as 1994-95, largely as a result of cuts in hospital budgets and in payment to providers under the Ontario health insurance plan. At the same time, however, the Ministry of Health will increase spending by \$300 million on community and public health and long-term care over the social contract period.

The increased priority assigned community and public health and long-term care is a reflection of the movement by the Ministry of Health towards a community-based health care delivery model. But the details of this model are sketchy and involve distribution of resources to communities based on some measure of health need, and with some freedom given to communities to structure delivery in accordance with local priorities.

Integration and coordination of health care services, particularly in the area of primary care, also play an important role in the ministry's realignment of funding priorities, with midwives and nurse practitioners garnering special attention. It remains to be demonstrated that these services are cost-effective or that their introduction will achieve overall system savings.

Finally, as a statement of its support for the concept of population health, the Ministry of Health announced that the government is "shifting resources to the broader determinants of health. For example, significant investments are being made for subsidized child care, pay equity, affordable housing, training and job creation."

At the same time, 7,900 hospital beds have been closed in the province. Just over 10,000 beds have been lost since 1988-89: Acute treatment beds in public hospitals, excluding psychiatric beds and bassinets, have dropped from over 35,000 in 1989-89 to 25,000 as of October 1994. Hospital utilization has dropped from roughly 1,200 bed-days to 700 bed-days over the same period. And total payments to physicians from OHIP have been capped at 3.7% below 1992-93 levels, although, as a result of cost shifts from third parties and other parts of the system to OHIP, total losses to physicians are far greater.

Recognizing the fiscal pressures faced by the government of Ontario, the medical profession is not confident that the province can maintain the level and quality of care required to meet patient needs. Although government officials repeatedly state their commitment to the continuation of universal medicare, and we have no reason to believe they are insincere in this respect, assumptions about increasing affordability as a means of saving the system have gained perhaps more credence than they deserve.

Do not be mistaken, however, about our cautionary note. We believe strongly in the need to address waste and inefficiency, to eliminate fraud and to deliver the

most appropriate services in the most cost-effective ways. We have demonstrated our commitment to all of these objectives and will continue to do so.

The caution we offer is against the belief that affordability will be sufficient to sustain what Ontarians, patients and providers alike, have come to expect from our health care system. The gap between optimal health care and publicly insured health care is widening and will continue to do so for the foreseeable future. The questions left to the government, the profession and the public are whether that gap should be bridged and, if so, how.

The profession believes that the fundamental elements of medicare must be preserved. It supports the notion that access to basic health care services should be determined by personal need and without regard to an individual's financial means. Maintaining medicare, though, will require government to be more stringent in deciding what services will be publicly insured to improve the efficiency and administration of health care delivery and to ensure that access to health care is more closely aligned to health needs than it is to the demand for health care services.

The use of expenditure caps to meet government budgetary targets cannot be sustained in the long run. Either the budget conforms to the level of resources that will be expended within the health care system or government must plan and restructure the health care system to efficiently fit within its budgetary targets. It is unconscionable that government abrogate its responsibility to the public by relying upon reductions in the payment for services consumed in the health care system.

With the growth and aging of the population of Ontario, the need for medical services will continue to grow. Further arbitrary budget cuts will only lower the quality of care in the system unless there is a willingness to enter into meaningful negotiations on the restructuring of the system. Health care delivery in this province can no longer be determined more by fiscal priority than by the actual health needs of the population. This requires at least an interest in meaningful change and real improvements in efficiency.

That is the end of the brief and presentation to the committee. I'd be happy to answer any questions.

**Mr Carr:** I'll go for a quick one, hopefully, and then Dave Johnson as well.

I'm interested in the question of quality. It was surprising: Today on the way in I got a call from a constituent who was upset. Her husband was on a waiting list for heart bypass surgery, and she was all upset and wanted me to call the Minister of Health and so on; we're putting the details together. As you know, there's been a report that said our waiting lists are getting longer, that for some procedures we're two and three times longer than the US now. In terms of quality, are the waiting lists for some surgeries getting worse? If so, maybe you could give some examples of what's happening, as a result of the financial pressures out there, to the quality of the service. I'm thinking specifically of waiting lists for various procedures. Would you care to comment on that?

**Dr Wyman:** The difficulty in giving you a precise

answer to that is that in most cases there is not a defined waiting list that you can pick up and say, "Here is the process."

**Mr Carr:** Sorry to interrupt, but why is that? I know I've heard that from my doctor. Why is it that we don't keep the stats of what the waiting lists are for hips or whatever?

**Dr Wyman:** In some areas we do. For example, in coronary bypass surgery there is a Metropolitan Toronto program that has a defined waiting list. The difficulty is that with freedom of choice of physician, freedom of choice of hospital, patients have an option to go to the physician they'd like to go to; as a result, each individual physician may have their own waiting lists, but there isn't any overall program. So it becomes difficult.

However, there are groups within the province, such as the Ontario orthopaedic association, a group of orthopods aligned with a section of the Ontario Medical Association, who do their own surveys. They've determined that the waiting list for knees and for hips in fact is probably three times what it was a couple of years ago and four to six times what it might be in the States.

**Mr Carr:** I wish we could go on; I had a lot of questions. I know Dave does. We'll maybe chat later.

1420

**Mr David Johnson:** Thank you for your deputation today, which I'm sure accurately reflects the state of affairs within the province of Ontario. I was interested in your comment towards the end of the brief which indicated that either the budget should conform with what we're spending or changes should be made in restructuring the health care system. That only makes sense, and I'm glad you've brought that forward.

I was also interested in your comments with regard to priorities. The home builders' association was before us this morning and indicated that there is a considerable amount of money being spent on non-profit housing; indeed, I think the budget is about \$800 million this year. You've mentioned affordable housing, and the subsidy is I believe in excess of \$15,000 per unit, per year, of non-profit housing within Metropolitan Toronto. That says something to our priorities. It's nice to have that sort of housing, but at the same time as we can't afford proper medical care, apparently, we can afford that kind of subsidy in housing. I think something's wrong.

You've mentioned a number of areas: the photo ID, third parties paying for services. Where do you sense that the efficiencies and the kind of cost reductions that may be required may come from?

**Dr Wyman:** I think the majority of efficiencies within the system still are in the administrative level. Beyond that, the major efficiency to be made is in terms of public education related to the appropriate use of the system. What we have found is that there has been little interest in and little willingness on the part of the ministry to actually become involved in meaningful statements towards the public to identify how to use the system and when to use it as opposed to working towards the wellness model.

**Mr David Johnson:** I assume the OMA has been



active in terms of putting forward suggestions to the government in that regard.

**Dr Wyman:** We have put forward several options for the government to consider, and there's been little interest in pickup.

**Mr David Johnson:** In terms of a third party paying for services they request, that sort of thing would be if one has to have a checkup for employment for a company; the sort of thing that really has nothing to do with the immediate health considerations of an individual but is perhaps for a job or something else. What sort of magnitude are we looking at in that regard?

**Dr Wyman:** There's a very large proportion of the health care budget that's currently being used for purposes other than direct health. We've been trying over the last while to have regulations implemented in order to have that inappropriate use of the system shifted out. It's probably somewhere between \$200 million and \$300 million per year.

**Mr David Johnson:** The other aspect you mentioned was the photo ID. I assume that would involve people who wouldn't be eligible for medical attention, perhaps Americans. We hear about Americans using our system. Do you have any sense of the magnitude involved in, shall I call it, illegal use of our medical system?

**Dr Wyman:** When we went through this about two years ago, the government's own figures were suggesting that there was anywhere up to \$400 million or \$470 million worth of services being provided. We believe it's probably significantly less than that, but even if it's somewhere between \$100 million and \$150 million of services being provided to patients who do not qualify as residents of Ontario, we think that's a significant saving. The delay in the institution of the health card until this year has just added those services on an ongoing basis to the system.

**Mrs Karen Haslam (Perth):** As you can tell by my voice, I have a cold. I have this urge to say: "Excuse me, I have a cold. What do you recommend?" You'll forgive me if I have that urge to ask you.

**Mr Carr:** Don't go to the doctor.

**Mrs Haslam:** "Don't go to the doctor." I haven't gone to the doctor for this one.

There are a couple of things you said. Number one, you talked about the registration of the photo ID cards. But the previous government did bring in health cards, and that was trying to bring to the front the fact that only those people eligible should be receiving health care. When you talk about the new photo ID cards, we are trying to bring those in. I have a concern when you say, "This isn't working, and this isn't working, and this isn't working," when I see it as a progressive step that we are trying to address some of those concerns.

You talk about bringing medical service volume down, and you talk about education. Does this include doctors saying to patients, "Instead of coming back on Thursday," some of that can be part of what the doctors do to help the education of patients and to help bring down the service volume?

**Dr Wyman:** It does indeed, and in fact we've been

doing that for the last five or six years. In fact, we have reduced the utilization of the system over the historical increases by somewhere between 6% and 7% in addition to the level that it's at now, so that we have, by doing exactly that type of service modification, reduced the use of the system by over \$350 million.

**Mrs Haslam:** Would that include lab tests for seniors? We know it has been stated that one of the major reasons seniors end up in hospitals is overmedication on drugs. So part of that bringing down the volume, bringing down the cost, would be checking on the amount and the prolific number of different drugs that are prescribed by doctors to seniors. For instance, I've heard pharmacists say that they've caught overprescription of drugs or they've caught, at their level, through the new computer system that's been put in as an initiative also, that the seniors are having too many drugs, too many different kinds, prescribed.

**Dr Wyman:** I think that if the computer system was set up in a way that would provide access for physicians to be aware of doubledoctoring and overprescriptions on the behalf of patients, it might be a lot easier for us to pick up a lot of that. As patients get older they require more treatment, they require more services. In fact, the only way in which we can be aware of what is happening with seniors is by seeing them more frequently. It's difficult to reduce the total use of the system when the population is getting older and larger and we need to see them more frequently.

**Mrs Haslam:** You also mentioned the shift that we've done to putting it into community and public health and long-term care in the homes, which also would help some of those seniors maintain their health within their own community rather than in an institution, which is much more expensive. You also talked about removing marginal services from OHIP. I know through a joint committee that some of these things have been done when they delisted certain things covered by OHIP, even delisting some of the drugs through the ODB. Some of these suggestions are being worked on?

**Dr Wyman:** The move to community services is a very laudable and very appropriate approach. The only problem is that the proper infrastructure has not been put in place and there has been no compensation for the increased use of services required as you move from one to the other.

With regard to removal of services from the OHIP package, the difficulty there is that in fact the amount of services that were delisted was about half of what the agreement called for. As a result, the government did not fulfil its obligation in that process.

**Mrs Haslam:** So you would be suggesting delisting further things that are covered under OHIP for the general population? There are still things that you feel should be taken off the coverage of OHIP?

**Dr Wyman:** The Canadian Medical Association is in the process of developing a very comprehensive approach towards defining what are known as core services, as opposed to discretionary services. That provides a template for looking at the way in which services ought to be covered across this country with regard to insur-

ances. I think that there are a lot of services within the Ontario basket of goods that perhaps could be identified as being discretionary.

**Mrs Haslam:** Was there ever a dollar amount in your mind when you talked about education campaigns on responsible use of the health care system? That's an outlay of a lot of money, and I'm sure that if that was done we'd get some people saying, "How dare you spend \$1 million on an ad campaign when \$1 million could be going into our OHIP or going into our health care?" Do you have any idea about the amount of money that you would tie to an education campaign?

**Dr Wyman:** I think we perceive it as being an investment. The amount of dollars that would be put forward would depend on the type of service that's being educated on. If we're talking about trying to educate people on the appropriate use of cholesterol testing, then I think you could afford to spend considerably more than you would if you were dealing with the type of education campaign required for the use of a particular type of anti-clotting mechanism for heart attacks. I think it would depend on the type of issue. We have items that would go anywhere from \$50,000 to \$500,000, depending on the willingness to be involved.

1430

**Mr Phillips:** I've often felt that we manage the money the province spends on health but we're not really managing the total health system. My understanding is that the province spends a little more than \$17 billion on health, but that there is another \$8 billion, \$9 billion, maybe \$10 billion spent on health in the province that isn't provincially funded, to get it up to around \$26 billion. Am I correct in that ballpark as the health spending in the province?

**Dr Wyman:** Yes. There's a very large part of the health care system budget expenditures that are out-of-pocket, related to dental services, over-the-counter medication, physiotherapy and a large number of other types of services; so yes, I think you're in the right area.

**Mr Phillips:** I've always used the assumption that a little less than 10% of the gross domestic product is spent on health, and that would be close to \$30 billion actually. The reason I raise that is that my belief is that we are fairly systematically moving health spending off the provincial books and on to other areas, and that the percentage that is funded outside provincial funding is increasing. Am I right in that assumption?

**Dr Wyman:** I think that is correct. I think what you'll find, if you take a look at the industrialized countries and look at the percentage of public expenditures and then add in the private expenditures, is that there is a pretty standard consistency across all of these countries. What is variable is how much is private and how much is public. The total expenditures will not shift terribly much if some were moved from public to private.

**Mr Phillips:** This is important, because the government often talks about managing the health budget. I think we're managing how much money the province spends on health as opposed to the health budget.

Your recommendation is to continue that trend, to

funding more from private sources, or at least non-provincial sources. I think that's your recommendation here, which is to say that the system has to conform to the level of resources and that the government must restructure to efficiently fit within its budgetary—I think you're saying we should identify more things that should be funded outside the provincial funding.

**Dr Wyman:** I think what we're really saying is the government has to make a fundamental decision whether it intends to try to fund everything or to fund what it can with the highest quality. If it continues to want to provide all of the services within its budget then inevitably there will be a crunch on quality, and that fundamental decision may mean moving some things to the private sector; it may mean reducing some services altogether. I think that's the decision that has to be made and has not been made to date.

**Mr David Pattenden:** Gerry, if I could add to that, it's also how you come at the financing. You can't simply say we're going to spend X dollars on something without knowing what you're spending on it and whether it should be spent on it. For example, you constantly get people standing up and saying, "Well, we spend \$385 million"—or whatever the dollars—"on certain kinds of health care; that's enough."

As you know, I'm from the outside; I have nothing to do with the medical profession. I could care less about particular professions. I feel more like a citizen or a taxpayer in this role that I have right now, and so I look at it from a very businesslike position and I ask the question: How do you know? For example, if David had said \$385 million is enough, I'd say: "David, what about \$380 million? How about \$410 million? Why not \$270 million? Where's your evidence that it's enough?"

Government's in a bind here. They're taking this global budget and they're saying we're going to allocate so many dollars, and they intend to use historical numbers to build up a case. I tell you from the inside, no one in this room, or probably in this province, has a really good idea as to what the appropriate amount is to spend on health care because you don't know what you want to provide in health care or how to do it. You've got the cart driving the horse here.

**Mr Phillips:** I tend to agree. I think we're going to have to look at quite a creative solution in the health area. To use the jargon, I guess, we're dealing with silos right now of spending and they don't relate to health needs of the community: the hospital budget, the OHIP budget, the long-term-care budget. Also, we have these two huge sums of money: \$17 billion funded by the taxpayer and then I think another \$10 billion, or thereabouts, funded through premiums and everywhere else. We're going to have to find a way to pull all of that together and make our health decisions and then figure out how much of that is funded by the province.

**Mrs Caplan:** I think this is a very important discussion and I know there isn't enough time to really get into it, but I think the issue of how much is enough is a very important one, and that's why, in my own view, you have to look beyond the absolute dollar and do what Gerry is saying, and that is, look at it as a percentage of



GDP or per capita expenditure as compared to the rest of the world and see how much those dollars are resulting in improved health status and the health as opposed to simply just the treatment of illness within your society.

That's where I think it's very positive, the discussions we've been having on the determinants of health. I know the medical profession is clearly interested in the health of their patients as opposed to just seeing them when they're sick. I think that's the challenge for our society, but I think the yardsticks are to take a look at the bigger picture around the world and see what the results are, and that's why the approach to outcomes is an important one.

**Dr Wyman:** The outcomes are critical, but you cannot afford to forget that illness still occurs and you cannot in any sense continue to fund wellness at the expense of illness. Illness will eventually disappear if you deal with illness, but not really. I mean, people still get ill before they die.

**Mrs Caplan:** But I think we agree on the importance of prevention strategies.

**Dr Wyman:** Yes.

**Mrs Caplan:** And testing the dollars we are spending on illness to make sure we're getting good results.

**Dr Wyman:** Absolutely.

**The Chair:** I'd like to thank the Ontario Medical Association for making its presentation before the committee this afternoon.

#### ONTARIO MINING ASSOCIATION

**The Chair:** The next presentation this afternoon is by the Ontario Mining Association, if the representatives would please come forward. Make yourselves comfortable. If you would identify yourselves for the purposes of the committee and for Hansard, I will remind you that you have 30 minutes within which to make your presentation and field questions from the committee members.

**Mr Patrick Reid:** Thank you, Mr Chairman. I'm Patrick Reid. I'm the president of the Ontario Mining Association. With me is my colleague Peter McBride, who is manager of communications and a string of other responsibilities.

We're sometimes known as the other OMA. You've had the one before you. We're the second one. We probably, in terms of the alphabet, should have been on first, but we won't argue that point.

We're also wealth generators in the province, and that's what we're going to talk about largely. We're not going to read our brief, and my experience in this room is that as soon as people said that, they proceeded to do so in excruciating detail, but I'm not going to. We'd prefer to have the time to answer questions.

We have presented you with our latest economic and fiscal study. It's entitled *The Economic and Fiscal Contribution of the Mining Industry in Ontario*. It's dated November 1994. This has been done for us by Ernst and Young, and we do this every two years to try and indicate to this committee and others what contribution the mining industry makes to the province of Ontario.

One of the thrusts of this government, and I guess everyone else, has been that we're in the high-technology

business, high-technology-research-oriented. Well, this industry, the mining industry, in Ontario and Canada is probably one of the highest-tech industries that we have. If we weren't, frankly, we couldn't compete on the international markets where prices are set. If we weren't on the leading edge of technology and research and development, we couldn't compete with the Chileans, the South Africans, the Mexicans and so on. In fact, a lot of people say, "Why is there a mine left in Ontario or Canada?" and it's primarily because in terms of Chile, for instance, we're about five times as productive at the moment as are the Chileans.

#### 1440

Our point basically is that this industry contributes a great deal to Ontario. Our workers are the highest-paid industrial workers in Ontario. You'll see as you read the brief that we make the comment that there were a number of people lined up in Oshawa for jobs in the automotive industry. If we could get the mining industry chugging along much better, they'd be lined up for mining jobs because they pay much better than in fact the auto industry does.

There are more than 50 cities and towns in Ontario that owe their economic existence to mining. Some of you may be surprised that a number of those are in southern Ontario. They're primarily industrial mineral producers. But Toronto probably is more dependent on mining than a lot of these other communities, in the sense that there are a lot of mining head offices here in Toronto, the Toronto Stock Exchange—about 20% of the value of shares traded on the TSE are mining-related and they're also about 20% of the volume.

A final point before we get into what we're here for is that mining adds more value per employee to its production than many other major industries in Ontario. Mining creates more than \$100,000 in value added per employee annually, which is almost twice the value added per employee as the average for the entire manufacturing sector. For instance, the motor vehicle and parts sector checks in at approximately \$85,000 per employee using this particular mine economic yardstick. We spend about \$50 million annually in pure research and development, \$250 million annually in environmental protection and more than \$3,000 annually per employee in training in health and safety.

Our employment has fallen considerably in the last few years in the mining sector in Ontario. Part of those we attribute, obviously, to the global recession, low metal prices, but also because of government-mandated costs. These costs that are imposed on not only the mining sector, the manufacturing sector, everybody else who does business in Ontario, you have to realize are killing jobs in this province. You can't keep upping the UIC, which I understand is federal, but the health care premiums, the WCB, other wage packet taxes without making the investment climate pretty shaky compared to other jurisdictions.

There's a graph in your package in this presentation on non-profit taxes and levies. This is a study that was done over five provinces and a territory. If you notice, the CPI went from 100 in 1988 to 118 in 1992; non-profit taxes

and levies went from 100 in 1988 to 156 in 1992. You can see on the next chart that non-profit taxes and levies as a percentage of operating costs have gone up substantially, and if you look at the third chart you'll see that environmental compliance has gone up substantially.

The last chart I'd like you to look at, for now at least, is the Workers' Compensation Board costs. On the first chart you'll see that the number of injuries reported by the WCB in the mining industry since 1975 has followed a steady progression downwards. We're the third-safest industry to work in in Ontario, hospitals I think being one of the other safer ones. But if you look at the chart on the next page you'll see the Workers' Compensation Board total cost of claims has gone up exponentially. So you've got one line that's tending down this way, the accidents, but the cost going up like this.

We've done our best to get our costs under control. If you'll look on page 5, you'll see that according to the Canadian industry program for energy conservation, mining has improved its overall energy efficiency by more than 10% between 1990 and 1992, which represents the largest energy efficiency gain by any industrial sector. That's just one small example of the fact that we are working both environmentally cleanly and conservatively to get our own costs under control, but government costs haven't done the same.

One of the requirements under the Mining Act and environmental legislation is that mining companies provide closure plans for their operations and plans of financial assurance. This the mining industry has agreed to do, but we think the tax system should catch up to the environmental regulatory system, and we're asking that Ontario support an RRSP type of fund for reclamation funds for mine cleanup at the end of mine life.

This fund would act like your RRSP, or mine, in which the money is put into a fund that will build up over time to pay the closure costs and the post-closure costs for mines, and the interest or income generated within the fund would not be taxed so that the many millions of dollars that are necessary can be there at the end of the mine life.

We see this as absolutely critical to the future of mining in Ontario, because otherwise, if we don't get this kind of tax treatment, it's going to make a lot of mining developments uneconomic. We ask this committee to recommend to your Treasurer that the mine reclamation funds and the non-taxation of the income within them be in this budget to give a positive signal for investment in the mining industry in Ontario.

That's it, Mr Chairman. We'd be prepared to answer questions.

**Mrs Haslam:** I've enjoyed some of the information you have here, especially around the wages and the productivity of your sector. I had starred this RRSP idea because I wanted a bit more information, but you've already indicated fairly clearly what it is. Wouldn't the average consumer see that as another tax break for a corporation versus what I can get out of my RRSP, because I have to pay taxes on it and you're asking that it be put into an RRSP but you don't have to pay taxes on it if you take it out?

**Mr Reid:** You would pay tax when the money is taken out to provide for mine closure and/or, in our case, sometimes we have ongoing acid mine drainage problems that have to be monitored and lime put on them. But when it came time to take the tax out, yes, you'd be taxed on it. Now, if you had other income or you had the expenses as against that income that came out, then it might be a wash. On the other hand, it might not be if you were a single mine.

**Mrs Haslam:** I thought you had said that there was no tax on it, and I would have a concern about setting something up like that when I, as an individual person with an RRSP, am being taxed and you're not. I didn't quite understand what you—

**Mr Reid:** I'm sorry. It's tax deferred, so you would pay tax when the time came to take the money out.

**Mrs Haslam:** I'm not sure I agree with that either, but at least you've clarified the point for me.

The other thing I found very interesting in your proposal was that on page 3 it says, "Without affecting the integrity of these laws to protect the environment," which I think is very important. After all, that's why the environment legislation or environment laws are brought in, to protect the environment, so any suggestion that you take away that protection in environment legislation would be of concern to me. I see that you're saying, "Without affecting the integrity of these laws to protect the environment...tremendous potential to eliminate conflicts and overlaps." Would you elaborate a little bit on that?

**Mr Reid:** I can give you two or three quick examples, I guess. In Ontario we've gone through a MISA program, which is water-based environmental standards. The federal government is going through the same thing in Aquamin and a whole bunch of other things. That's one. Environmental assessments are another. As to who is on first, let's have one environmental assessment, whether it's the provincial or the federal government that does it, but let's not require a mining project or any other kind of project to go through a provincial environmental assessment and then somebody gets all excited and then we have to have a federal one as well.

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**Mrs Haslam:** I have one more question. I know I have a colleague who wants to ask a question.

In The Economic and Fiscal Contribution of the Mining Industry in Ontario, on page 21, you talk a little bit about R&D. There was some money put into R&D and some breaks given for companies engaging in R&D. Was that of benefit to the mining industry?

**Mr Reid:** I can't tell you that. I think there was some benefit to the industry in that sense, yes.

**Mrs Haslam:** Okay, thank you.

**Mr Reid:** I wouldn't call them breaks, though. I have a little problem with that.

**Mrs Haslam:** Well, there were incentives and there was a reduction in taxes for research and development. There were opportunities to look at research and development as a prime effort of any company, and I think this government realized that by doing some things within the



budget, that would help research and development.

**Mr Reid:** Yes.

**Mrs Haslam:** All I'm saying is that I would see that as being of benefit to the mining industry as an industry that looks at R&D, exploration and development.

**Mr Reid:** Yes.

**Mr Klopp:** Good afternoon. As a person who has a mine in Goderich, a salt mine which does a lot for our area as a major industry, I can appreciate maybe a whole lot more than some about how important our minerals are. As one who also uses the odd block of salt in our cattle barns or whatever, it is an important factor for many of us.

But this issue around the RRSPs, on page 2 it says something: "The House of Commons standing committee...helpful suggestions...on mine reclamation trusts" Is this a federal-provincial area, or do they have a mine reclamation plan and we have one too in Ontario?

**Mr Reid:** As you probably know, the federal treasury regulates the federal income tax and two things seem to have to happen, at least from some peoples' view, and those are that the federal government must pass an act to allow for tax deferral at the federal level and the province would have to pass an act at the provincial level or change the provincial Income Tax Act. We're not sure whether or not this is going to happen in the federal budget—if we knew that, we'd probably be out making money on the market or something—but the House of Commons natural resources committee has recommended to Mr Martin that they in fact do that this year. We're asking this committee to recommend the same thing to the Ontario Treasurer.

**Mr Klopp:** You mentioned about the different ministries, having federal regulations, provincial, the Ministry of Environment and Energy etc, and I think you're right on. I think it's time we get away from that. At the Ministry of Agriculture, Food and Rural Affairs we are, through the two levels of government, under expenditure control, finally getting that we're going to have one person walk into a meat plant to inspect instead of having two. Before it just couldn't happen. But also, when you have an incentive, it can happen.

What do you think it's costing the industry? Maybe some people can catch on now. We had numbers in our own ministry, once you could see it, that got people to move, because we really want the environment checked. I think it's good, in your interests and in everybody's interests, because you don't want to be seen as being bad on the street. I think the polls show that every time I see them. But what do you think it's costing, having the federal regulation and provincial regulations, if they couldn't come together, in savings?

**Mr Reid:** I'm sorry, Mr Klopp, I can't give you a figure, because when we try to gather these figures, they're not kept by individual companies, but one of the associated costs with it is that if you have two inspectors come in, then you've got at least one person or maybe more who has to take that inspector around or be with him or her. It's just that the overall regulatory burden is pretty heavy, and it's also quite possible that a meat

inspector might be able to inspect for something else from another ministry, so he might be able to do some of the environmental stuff or he might be able to do some of the labour stuff or whatever. But some places complain that they can have as many as 12 different inspectors in a week, all from a different government ministry or within sometimes different parts of a ministry. Everybody's got a different piece of the cow, it appears, if I may use that agricultural—

**Mr Klopp:** Oh, yes. Thank you.

**Mr Kwinter:** I'd like to pursue a couple of areas with you. I've had the good fortune over the last couple of years to be heavily involved in the mining industry. I've spent a lot of time with people in Ontario who are leaders in the mining industry. Unfortunately, I haven't spent any of that time in Ontario. Canadians, and I assume probably the Australians, have the reputation of being the best mining people in the world, yet you find Canadian, and by extension Ontarian, mining people spending their time in Cuba, in Mexico, in Chile, in West Africa, in Central Asia, in China. When you talk to them, other than the existing mines that are still being developed and being exploited, in the finest sense, at a very high level, most of them tell me that there is no way they would do any new exploratory work in Ontario. Has that been your experience?

**Mr Reid:** The figures for mining exploration across Canada have plummeted; there's no doubt about that. They're very low. A lot of people are looking elsewhere in the world. I suppose your next question is why?

**Mr Kwinter:** Yes.

**Mr Reid:** I think there are two or three reasons. One is that I think that through more, in some cases, benign neglect than anything else, we're killing the resource industries in Canada, and in that I include mining, agriculture and the forestry industry.

Secondly, we've had an onslaught from the environmentalists who see nothing but bad about any of the natural resource industries, and you've had some arbitrary decisions made by governments in various jurisdictions—the Windy Craggy situation in BC, where the government arbitrarily decided to not even follow its own process, but turned a potentially large mine and potential wealth creator into a national park, which maybe in itself is what should have happened, but they didn't even allow their own process to follow through.

Thirdly, we are, as Canadians, overregulated and overlegislated. There's an apocryphal story—I understand it's true, but I'll say it's apocryphal—about a mining executive arriving at the airport in Santiago, Chile, and the minister of mines is there to meet him in his limousine and says: "I'm the minister of mines. I'm here to help you. What can I do to help you get your mine going here?" The reverse of that story is you go into some government office in Ontario and say, "I want to open a mine," and somebody hands you a stack of documents like this and says, "After you've read those, come back and let me know if you've got any questions."

The investment climate is not very good in this province or in this country, and part of it is the stacks of

regulations that people have to follow.

**1500**

**Mr Kwinter:** One last question and then I'd like to turn it over to my colleague: Most mining people tell you that everything starts with geology. From what my colleagues tell me, the geology in Ontario or in Canada is as good as anywhere in the world, so we should be able to have that vibrant mining industry, but because of what you're talking about, it isn't happening. Do you agree with that?

**Mr Reid:** Yes. We still have some of the best geology in the world. The Precambrian Shield in Ontario, Quebec and part of Manitoba has the oldest rocks in the world, and that's where you find the metals. We still think there are a lot of geological possibilities in Ontario and Canada.

**Mr Phillips:** Just to comment first and then ask the question, I think you've got your hand on a problem that isn't unique to mining. I think for a variety of reasons there is a feeling that Ontario simply hasn't been open for business. I hear the same comments from my colleagues who are opening plants, and they will say, "I have a choice of Ontario or I'll go to a US state, or I'll go to New Brunswick for a discussion and when I go to the state or New Brunswick it's the Premier or the Governor who talks immediately to me, and there's a less welcoming environment here in Ontario." I agree 100% with your comment that we have to find a way that we open Ontario up for business again, and part of that is the regulatory burden.

My question is on what you called the RRSP for mining reclamation. Just so that I understand what your recommendation here is, it's that the industry be allowed to set aside a certain percentage of perhaps its sales each year in a trust that is non-taxable until the money is either used to fix up the environment on the mine closing or used to—if all those funds aren't necessary, then if a dividend's declared, the tax is paid on it. Is that the essence of your argument?

**Mr Reid:** Yes.

**Mr Phillips:** What sort of annual cost do you think there is for the Ontario taxpayer in that?

**Mr Reid:** We tried to estimate that and it's difficult to do because each mine property is different and some have this acid mine drainage problem and some don't. The cost varies in closing a mine from a couple of million dollars to potentially \$50 million or \$75 million. But every company wouldn't automatically use a mine reclamation fund. They might use letters of credit, there might be bonds, there might be treasury bills, there might be that dreaded word, "cash." It's difficult to say, but the estimates that we've done in conjunction with the Mining Association of Canada are that it might amount to between \$10 million and \$15 million a year.

**Mr Phillips:** Lost taxes or the amount of money that you would put into the fund?

**Mr Reid:** Lost taxes.

**Mr Phillips:** Lost taxes. Is that the federal—

**Mr Reid:** Yes.

**Mr Carr:** Thank you very much, Pat and Peter, for a fine presentation. It was very in-depth.

You talked about some of the costs, of WCB costs going up, Ontario Hydro, employer health tax. Isn't it true that one of the problems you also had is that while your costs were going up, your prices across the board were going down as well? Are the prices starting to look better now, and what do you see for the future? If you, as many of your companies have done, remained efficient, if the prices go up, do you see a good period now for your industry?

**Mr Reid:** The mining industry or the metal and minerals industry isn't homogeneous, so prices for different metals vary, unfortunately.

**Mr Carr:** Yes. It's tough for all of you.

**Mr Reid:** It's hard to forecast. The base metal mining, which is better than 50% of all mining in Ontario—zinc, copper, nickel—has been quite depressed for the last two or three years, but those prices have been doing reasonably well within the last six months to a year. Most people are forecasting that they will continue, hopefully, for another year, but the peaks seem to be shorter and the troughs seem to be longer in the commodity business.

**Mr Peter McBride:** To expand on that a little, one thing that is really helping right now is the low Canadian dollar, because mining companies in this province are incurring costs in Canadian dollars, and as commodities, basically everything's exported and sold in US dollars. That's helping, and you're seeing some good results coming from mining companies now issuing their fourth-quarter results. The exchange rate, as bad as it is for many parts of the economy, can help the resource sector.

**Mr Carr:** The principle that people and your member companies have had to go through is the same thing we think the government should be going through. As you know, they're complaining about revenues being down at the same time as cost pressures are going up, and we believe there is a tremendous amount that can be done on the government side, a lot like your industry, in terms of getting costs down. Everybody, including individuals, has had to do more with less. It's only governments, at all levels, that really haven't.

I wanted to talk about the WCB issue a bit, because you had talked a little about the costs versus the number of injuries. The graph you put together showed the number of injuries going down in the mining industry, class 5, and then costs going up. It's sort of a broad question, but I was wondering if you'd like to comment on what you would like to see done with the Workers' Compensation Board and how we're going to be able to control the costs in that area. What does it mean to you and what would you like to see happen with the WCB?

**Mr Reid:** I'd preface that by saying that for every new job you take on a burden of \$45,000 in unfunded liability from the present workers' compensation system. It's really gotten out of hand. I don't have to tell you about the potential \$11-billion deficit they're running.

We're hoping that the royal commission might deal with some of these issues, but the first principle is that it



has to be fiscally responsible. I guess the best answer to that is exactly what you heard from the other OMA, when he talked about, what services are you going to provide and at what cost? Are you going to just have an open budget and say that whatever comes in the door we'll do?

To a large extent the WCB has become, in our view, part of the social safety net. Instead of paying for traumatic accidents on the job, it's paying for a lot of other things that should be looked after in some other area. If we could get back to the first principles of WCB, I think that would help. In some cases, the awards are fairly generous, particularly compared to other jurisdictions.

**The Chair:** Our time has expired. I'd like to thank the Ontario Mining Association for its presentation.

#### ONTARIO RESTAURANT ASSOCIATION

**The Chair:** The next presentation is by the Ontario Restaurant Association: Paul Oliver, president; Rachelle Wood, manager, government affairs.

**Mr Paul Oliver:** We've even brought doughnuts from one of our member establishments.

**Mrs Haslam:** My favourite establishment. Is coffee included?

**The Chair:** Thank you. Please proceed.

**Ms Rachelle Wood:** Good afternoon. I'm Rachelle Wood, the manager of government affairs for the Ontario Restaurant Association. With me today is Paul Oliver, president of the ORA.

On behalf of the association, we are very pleased to participate in the pre-budget consultations regarding the development of the 1995 provincial budget. We see this as a great opportunity to outline a number of issues which we believe are important to Ontario, to consumers and to Ontario's foodservices sector. We will try to limit our comments to leave as much time as possible for questions and discussion. Our submission, which has already been handed out, is self-explanatory.

In developing our submission, we have been very cognizant of the financial constraints placed on the government of Ontario and the overriding goal of all political parties to create new and more jobs in the province. Since we took part in last year's pre-budget consultation, Ontario's foodservices industry has experienced a growth in real terms of approximately 2.5%. This is unfortunately below the Canadian average of 3.7%.

Earlier this year, Canada's food and beverage industry reached a plateau of restoring all of the sales, in real dollar terms, that were lost during the recession. This took place everywhere in Canada except in Ontario. At current levels of projected growth, we are projecting that Ontario's food and beverage industry will not return to pre-recession levels until 1999, unless action is taken now to stimulate that growth.

What we have done today in our submission is outline a three-step approach which we believe will help stimulate growth in the foodservices industry, create substantial jobs—somewhere between 20,000 and 40,000 new jobs—and do this all at no cost to the government of Ontario. In fact, not only will this be of no cost to the government but it will also generate in excess of half a billion dollars

of new revenue for the government of this province.

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While experiencing growth of 2.5% during 1994, jobs continue to decline in the food and beverage industry in Ontario. Since last year, 5,000 jobs have disappeared from the foodservices industry. Current projections are of a further decline during 1995. We believe this trend can be reversed.

The first step we would like to recommend is the implementation of video lottery terminals in Ontario's licensed bars and restaurants.

With the recent announcement several months ago by the government of British Columbia to bring forward video lottery terminals, Ontario is now the only province in Canada which is not benefiting from revenue from VLTs. We estimate that the implementation of VLTs will generate in excess of half a billion dollars in new revenue for the government of Ontario and generate approximately 16,000 jobs in the food and beverage industry. We believe this is a positive step which, balanced with social concerns, is still one that should be pursued.

It is important to note that we are not advocating gambling for the first time in Ontario. Already, billions of dollars are wagered in Ontario today. As well, we do have some 1,800 video lottery terminals in the Windsor casino.

We believe that by bringing VLTs into licensed establishments, we will be able to substantially enhance job creation, help stabilize the licensed sector of the hospitality industry, reverse the outflow of Ontario residents to competing jurisdictions such as Quebec and Manitoba which have VLTs, and begin to address the massive black market which has already developed for video lottery terminals.

Estimates now are that there are between 20,000 and 25,000 illegal machines in Ontario, machines from which the government of Ontario and its taxpayers receive no benefit. With the rollout of 30,000 machines in Quebec which will displace the black market in that province, we, as well as law enforcement officials, believe that many of those machines will flow into Ontario and the number of illegal machines will grow rapidly. By acting now we will not only prevent the growth of the black market but we will create large numbers of jobs and be able to redirect the money that is going into criminal activities into the treasury of Ontario.

We would therefore urge this committee to recommend that the government of Ontario move quickly to introduce video lottery terminals.

The other two major components of our pre-budget submission look at tax changes, one being completely in the jurisdiction of the province of Ontario, the other being the GST-PST harmonization which is in the federal-provincial sphere. I will ask Paul Oliver to briefly comment on these two items.

**Mr Oliver:** The high level of taxes imposed by both the federal and provincial governments on beverage alcohol has placed Ontario in an uncompetitive position relative to hospitality operators in border areas as well as when competing for international tourism.

We have already heard many times that consumers are extremely frustrated with the high level of taxes they pay on beer, wine and spirits. However, in spite of this fact, the level of taxation applied to patrons in restaurants and bars is even higher than is paid by consumers who purchase their product for home consumption.

Contrary to popular belief, hospitality operators do not receive large-volume discounts for their large-volume purchases. In fact, in Ontario today, restaurant and bar operators and their customers are penalized for purchasing beverage alcohol.

While the level of taxation on beverage alcohol is burdensome for home consumers, it is devastating for hospitality operators and their customers, who are required to pay a special provincial gallonage tax of 12%, which more than doubles the amount of taxes that restaurants and bar patrons pay.

As you will see from our submission, we recommend the elimination of the gallonage tax in Ontario. We've also enclosed with our submission an economic model which explores four different approaches to accomplishing this goal. The study concludes that the elimination of the gallonage tax and the resulting stimulation of sales in the hospitality sector will in fact be revenue-neutral for the government of Ontario and will create 5,000 additional jobs in the food and beverage sector.

Just to give you an example of the gallonage tax, I've brought with me a few props today, two identical bottles of wine, actually not bad bottles of wine, which sell for about \$7.40 in the LCBO. On this one, if it's purchased by a consumer for home consumption, the government of Ontario gets \$4.16; on this one, if it's purchased by the same customer in a licensed restaurant, the government gets \$5.51—the same product but different taxes. We think if it's the same product, it should be taxed similarly. We recognize that the high level of tax is applied in order to act as a social control on adult beverages, and we won't quarrel with this approach. However, what we don't understand is why identical products are taxed differently when the only difference is the location of purchase.

As you will see from the submission and the supporting documentation, Ontario's gallonage tax and alcohol tax paid by licensees is more than any other jurisdiction in Canada. No other jurisdiction discriminates against hospitality operators or penalizes restaurant patrons for purchasing adult beverages. Even if our restaurant operators wanted to charge the identical price for a bottle of wine as is sold in the LCBO, financially they could not do so. They would do so at a loss because of the additional 12% gallonage tax which is applied only on bars and restaurants.

We believe there is an opportunity for the government to explore a new approach to tax policy: Look at tax policy as a job creating tool and do it in an environment where there is no revenue loss for the provincial government.

Once again I'd like to reiterate our recommendation to eliminate the gallonage tax and make sure that all alcohol is taxed equally, regardless of whether it's purchased in the LCBO, Brewers Retail or a hospitality operation. The

same product should have the same tax.

Speaking of the same product having the same tax, this brings me to the last issue I'd like to address: the proposal to harmonize the provincial sales tax with the federal goods and services tax. From the foodservice perspective we do not see this as a viable option. The federal government has indicated that it plans to eliminate the GST in Canada and we strongly support this commitment. We do not believe that simply harmonizing the tax with provincial sales tax accomplishes this goal. In fact, we would strongly urge the government of Ontario not to harmonize because it would only exacerbate the inequities embodied in the goods and services tax. We would urge you to look at the GST not only in a revenue or fiscal context but to look at it as an employment-job creation opportunity.

The introduction of the GST on restaurant and food sales resulted in a 7% decline within our sector. As well, it represented a loss of 45,000 jobs across Canada and 20,000 in the province of Ontario. The GST is not only a despised tax, it's also a job killer, and it's important to keep that in mind. The foodservice industry has lost significant market share to grocery and convenience stores due to the inequities entrenched in the GST.

Since the introduction of the GST on only some foods but not all foods, the foodservice industry percentage of market share has declined dramatically, from 42.5% to 36.6%. With identical products being taxed differently solely because of the point of sale, we believe this is simply an inequity in the tax system which needs to be addressed.

I've also brought a few more examples with me: the pizza which is tax-free and the identical pizza which is taxed; the chicken nuggets which are not taxed and an identical product, 20 chicken nuggets which are taxed. Some people would suggest that we have this inequity in the system so that basic food is not taxed, but that may not hold water either.

When I bought a carton of milk for my niece on the weekend I paid tax on it, but when I went out shortly afterwards and bought a container of caviar it was tax-free. To me this just doesn't make sense. Milk is taxed, but caviar, which I think of as a luxury, is not taxed. By harmonizing the PST with the GST we believe that the inequities in the system will only be exacerbated. Today Ontario at least has an exemption on low-cost food, which is \$4 and under. The harmonization would eliminate that exemption and place an even further tax burden on low-income residents, students and senior citizens.

In stepping back from the situation, looking at it not only from the food and beverage industry, we are concerned that harmonizing with the GST will mean a massive increase in taxes on Ontario's consumers. To be revenue-neutral on a GST tax base, the PST would have to remain at its existing 8% level, but that 8% would not only be applied to the limited base of the PST now; it would be placed on a large range of new services and new products that are currently exempt under the PST. We estimate that this would be somewhere over \$2 billion in new, additional consumer-focused taxes.

As well, we estimate that a harmonized base, with the input credits on exports, would mean that an additional



\$700 million to \$900 million of taxes would have to be applied to residents of Ontario to make up for input credit on zero-rated exports that are presently taxed under the PST either directly or indirectly.

**1520**

All three parties at Queen's Park have pledged not to increase taxes. We believe harmonizing with the GST would break this pledge. Harmonizing would mean a tax increase. No matter how you cut it, it's a tax increase. For this reason, we would strongly urge the government of Ontario to use the opportunity of the GST-PST harmonization talks to push for real reform to the federal tax structure and to use it as an opportunity to continue to pressure the government of Canada to eliminate the GST.

By eliminating the inequities between grocery stores and food and beverage operators, we believe 20,000 new jobs will be created in Ontario. That's 20,000 people, many coming from social assistance, which in turn will result in further savings for the province of Ontario as social assistance dependence is reduced.

To recap, the Ontario Restaurant Association is urging this committee to recommend a three-step approach to stabilize the food and beverage industry, create new government revenue and create desperately needed jobs in the food services sector. These are: the introduction of video lottery terminals, the elimination of the gallonage tax, and continuing to pressure the federal government to eliminate the inequities in the GST. These three steps, if implemented, would mean half a billion dollars in new revenue for the province of Ontario and over 40,000 new jobs. As well, it would mean no increase in taxes for Ontario's consumers.

We thank you for the opportunity of appearing here before you today and welcome any questions. I would note that as to the doughnuts I brought, if you take one out of the bag with the red mark on it, that's been taxed, because there were five in that bag; if you take one out of the one with the black, it's not taxed, because there were six in that one.

**Mr Wiseman:** That's GST. That's what the Liberals are going to eliminate in Ottawa. Have I got that right?

**The Chair:** Thank you very much, Mr Oliver. We have about five minutes per caucus.

**Mr Phillips:** As to your first recommendation, the video lottery terminals, we've heard concern expressed about their addictive nature and that individuals may end up losing a lot of money on them and things like that. Have you any evidence one way or the other from other jurisdictions of whether there's any validity in that argument?

**Mr Oliver:** Manitoba has the longest experience with VLTs in Canada. There was a study completed recently, and I think it was provided to most MPPs, which looked at the addictive nature and what the profile is of the user of VLTs and what the average user spends. The Brandon University study found that it was a person who would set a limit and go in and spend \$20 over the evening, and they saw it as entertainment. They weren't going in and betting huge amounts of money.

It's important to keep in mind that with VLTs you're not going to go in and change your lifestyle. This isn't going in and winning \$1 million or \$2 million, so you're not betting the rent and everything on it. The most you can win is \$400 if you hit the jackpot. The payout on it is higher than most other gambling activities.

The Brandon study, which is the most comprehensive I've seen, clearly points out that it's not the addictive nature that some people would suggest. Certainly there is a small percentage of the population which finds addictive a variety of activities, be it lotteries or horse racing or other activities like that. What we're recommending is that resources could be focused specifically on that 1% or 2% of the population.

**Mr Phillips:** Where does it stand right now from the government's perspective? What's the latest word you have from the government in terms of whether it's going to proceed with this?

**Mr Oliver:** At this point, we haven't had direct word back one way or the other. We understand that cabinet has looked at it but has decided at this point not to pursue them.

**Mr Phillips:** On the elimination of the gallonage tax, you say it can be revenue-neutral. What is the basis for it being revenue-neutral?

**Mr Oliver:** It would be the shifting of less than 1% of the market share of home consumption and licensed establishment consumption from home to licensed establishment. The tax level, even if you eliminate the gallonage tax, would still be higher on alcohol that's purchased in a licensed establishment, because of the application of a 10% PST on the resale. So you're taxing the markup, you're taxing the labour that goes into it—just shifting that market share. The study that I've included with the submission looks at three or four different options, doing it all at once, doing it phased over three or four years, and it's at the back of the binder.

**Mr Phillips:** Right. That would be useful. The GST-PST argument: Your recommendation, I gather, is that from your perspective the worst outcome would be the total harmonization of the two, that this would be your least preferred option. Is that—

**Mr Oliver:** Yes, because it would actually increase the amount of tax paid by restaurant and foodservice patrons. We would first recommend that the federal government address some of the inequities in the GST system. There are other options that need to be looked at, be it a business transfer tax or other varieties, that can be done solely at the federal level. We don't see that it would need provincial support to do a business transfer tax.

For the saving of the harmonization for businesses that some people would suggest, a lot of business people have already invested in transferring their system over and putting the PST-GST collection process in place. It would actually be an additional cost for some operators to go back to a different system. Combining provincial tax collection is probably going to be more savings for small business than combining the GST and PST.

**Mr Phillips:** So you're saying that a lot of businesses now have a system that makes the actual collection of the taxes not as burdensome as it was?

**Mr Oliver:** No. They've already had to go out and invest in a new cash register or get the cash register and computer reprogrammed or change their bookkeeping process. That's already done. To change it all back or to make another major change in the future is just going to be another cost that they'll have to incur.

**Mr David Johnson:** Thank you very much, Paul and Rachelle, for your deputation today. A lot of food for thought here, if I can use that expression, in more ways than one. Your industry is one of the key industries in Ontario, because it's what I would think of as an entry-level industry. Many people get their first jobs through a restaurant.

**Ms Wood:** Over 30%.

**Mr David Johnson:** Over 30%—I didn't realize the precise number; well, yes, it says so right here, as a matter of fact—and then go on from there. When we think of unemployment in our population, of course unemployment is so much higher among young people and young people are looking for their first job. So it would seem to me only to make sense to do whatever is possible to put in place a good environment for an industry like this that is the starting point for employment.

You made an excellent case for your VLTs and on the harmonization, and the points. I just wanted to explore maybe one or two that you didn't get an opportunity to talk about. We think, for example, that the employer health tax is a disincentive. Our proposal is to reduce the employer health tax for businesses with payrolls of under \$400,000. I wonder what your view on that proposal would be.

**Mr Oliver:** We would certainly, from the food-services industry, support changes which would tie corporate taxation or business taxation closer to profitability. Our industry is a very cyclical industry. In the late 1980s it was a very profitable industry and it's not profitable across Ontario today, but we still have high levels of taxes that are either property taxes, employer health taxes—they're fixed regardless of how profitable you are.

We've done studies and the Conference Board's done studies that look at our jurisdiction and they don't find the overall tax burden in Ontario much higher. They find it slightly higher for the hospitality industry, but when we get those cyclical downturns it becomes two or three times higher. Part of it is tied because you've got fixed taxes that are tied; regardless if you make no profit at the end of the day, you're paying the employer health tax, you're paying these high property taxes. We'd like to get a system that moves maybe higher corporate taxes on profits provided you are profitable.

1530

**Mr David Johnson:** Two of the highest taxes that we are paying in Ontario—the property tax in Canada is the highest in all OECD countries, but the personal income tax in Ontario, in Canada, is the highest of all the G-7

countries. We're also proposing to reduce the WCB costs by 5%, but particularly on the personal income tax our view is that the Ontario rate is too high, it's too high relative to other competing jurisdictions and we need a significant reduction there. We think that kind of reduction would put more money in people's pockets and they would use that money to go out and buy goods and services, for example in restaurants. I wonder what your view on that sort of proposal would be.

**Mr Oliver:** Any proposal that would assist consumers in enhancing the disposable income that they have, we would be supportive of, and that tied with changes to make sure that the commodities, be it in a grocery store or a restaurant or wherever, are taxed similarly so that we don't have an incentive to go to one sector over another. It's got to be a balanced approach, but certainly our industry benefits when consumers have more money to spend. Proportionately, our industry suffers substantially more than any other sector when consumers have less to spend. So our first recommendation would be to make sure that we don't increase taxes on consumers, period, and secondly, let's start putting more money into consumers' pockets.

**Mr Jamison:** I'd just like to go back to the issue of VLTs and really look at that. Number one, I wasn't aware that—you said all the other provinces in Canada have VLTs up and running. Is that right?

**Mr Oliver:** Except for BC, which is only now starting. They are expecting to have them up any month now. They've announced, I believe, 10,000 of them for the province.

**Mr Jamison:** Okay. As you're aware, we've taken a very pragmatic approach to casinos in the province of Ontario and we want to see how that works, the result, the effects on the community. When we talk about the community—and by the way, when this type of gambling was brought forward in the Legislature, both other parties voted against that. You know what I mean. I just want to put that on the record because it almost seems like they're in favour of that today.

But when we look at VLTs and casinos and so on, we've brought the issue, and very rightly so, we believe, down to a community level, the issue of casinos. Without community support behind a casino there simply wouldn't be a casino established.

Now, when you look at VLTs and your business, technically you could say that there might be a small casino in an establishment, given whatever size. Don't you believe, as we do—we feel that communities and the representatives at the municipal level should have some say in whether or not casinos or gambling, video lottery gambling, is available.

**Mr Oliver:** We would see casino gambling and VLTs as very distinctly different issues. There's a difference between putting two or three video terminals in a bar in the neighbourhood pub and putting down a huge complex with 1,800 VLTs and 20,000 visitors a day. They're completely different. They're different target markets; they're different clientele profiles. Casinos are very much targeted at an international tourist or domestic tourist market, whereas VLTs are an additional entertainment



factor. The BC example is perfect. The community of Vancouver was very much opposed to the casino going into the port, but there was no public outcry when VLTs were announced, because the public saw them as different issues. The announcement was made, the government of British Columbia expected some backlash, and it was a one-day newspaper coverage. There has been very little coverage of it subsequent to that.

**Mr Klopp:** They haven't got the opposition parties that we've got.

**The Chair:** A little over a minute, Mr Klopp.

**Mr Klopp:** Thank you. I worked in a restaurant Saturdays, farmed all day and worked all night and enjoyed it and kept my money. In fact, I guess I could say I worked on both sides of the bar.

**Mr Oliver:** If I could add, you, like many people also in the farm community, relied on the hospitality industry for the off-farm income.

**Mr Klopp:** But there's another side of the industry. You need people with money to go to eat and drink and whatever. The horse racing industry is a major industry in this province, and one of the other sides of the VLT issue, because it is something that we looked at very seriously, I can tell you, is they are looking at around 50,000 jobs that they think will be affected by the whole issue, and the numbers in the States, Manitoba, they are bringing those numbers up. This is something that's taken very seriously by this government and that's just on the other side of the coin.

On the elimination of the gallone tax, I have sympathy for where you're going and I appreciate how you brought that forward. I think you've got some good examples there and I think there should be something done there.

The pressure of the GST: Earlier today a fellow colleague in the farm sector showed that it would maybe do some good for that sector. However, there is the other side. Just to show that's the balancing act that we need to have here, I tend to agree with where you're coming from, and I think Floyd would be very happy to hear that we should be very proactive with the discussions federally. We don't just need to harmonize, because our numbers show millions and millions of dollars which would be coming out of the system, and that's why we didn't harmonize it. I think your remarks were good and I'll do all I can on the gallone tax thing.

**Mr Oliver:** If I could just comment on a couple of things. One, the horse racing concern, certainly we're aware of that. We don't think that 50,000 jobs will be lost from it. In fact, we think there may be a blending of the opportunities. If you see the horse racing industry—and my father is in the horse racing industry, so I'm quite aware of it and I hear quite a bit about it from him—US tracks are actually blending poker parlours, horse racing and VLTs together to provide that additional entertainment to get people out and keep them at the horse racing tracks. That is an option that we certainly see, blending, the same as the hospitality industry is being blended now with the off-track betting.

Relative to the agricultural concern, I would point out

that most of these products that are processed actually come in from outside of Ontario, are not Ontario agricultural products, a disproportionate share of the non-taxed products, whereas the stuff that comes through the foodservice industry, because of supply management or for other process reasons, is predominantly domestic agriculture. So you may actually see a major sales increase for Ontario's agricultural community.

**Mr Klopp:** By not harmonizing.

**The Chair:** I'd like to thank the Ontario Restaurant Association for making this presentation before us today.

#### CANADIAN BANKERS ASSOCIATION

**The Chair:** The next presentation this afternoon is by the Canadian Bankers Association. As soon as the restaurant association has removed its wares, I would invite representatives of the Canadian Bankers Association to come forward.

If I could ask people who are having private conversations to please take them outside the committee room, it would be very much appreciated. We'd like to continue with the business of the committee.

Please make yourselves comfortable and, if you would, identify yourselves for the purposes of Hansard and the committee members. I'll also remind you that you have 30 minutes within which to make your presentation and field questions from the committee members.

**Mr Michael Green:** Good afternoon. My name is Michael Green. I'm the Ontario director for the Canadian Bankers Association and I represent the Ontario committee today.

I'd like to introduce the panel from the CBA that will be making the presentation. On my far left is Judith Bussey. Judith is vice-president of the Toronto-Dominion Bank. On my immediate left is Harri Jansson, an executive vice-president with the Bank of Montreal and chairman of the Ontario committee. On my right is Barbara Amsden, who is director, financial affairs, for the Canadian Bankers Association. We'd like to start our presentation today with Judith Bussey.

**Ms Judith Bussey:** We're pleased to be here today on behalf of the Canadian Bankers Association. What happens in Ontario is very important to us. Almost half of our staff and operations are in Ontario and more than half of the provincial and municipal taxes we pay are paid in Ontario.

The federal government's small business working committee recently reported on the primary challenges facing small and medium-sized businesses. They're the same challenges faced by all businesses. They are massive government debt, an alarming deficit, high taxes and a rigid regulatory regime. We'll address these matters here today.

#### 1540

With respect to debt and deficits, I will not go through the statistics again; I'm sure you've heard them. We do believe that there is general agreement that we cannot grow our way out of the debt and deficit problem right now. Most governments appear to have recognized that the goal must be a balanced budget and that now is a good time to do it, perhaps the only time to do it in a

rational way, while we're in a period of growth.

We believe that the following five points are critical to obtaining and maintaining taxpayer support for the process of cutting the deficit:

(1) Canadians must be made to understand the link between persistent deficits and job creation. To create jobs and economic growth, we must stop the growth of debt. Governments must explain clearly and unanimously the dire consequences on employment and our lifestyle if the deficit is not faced squarely now.

(2) Accounting for government debt and deficits must be consistent across jurisdictions. Taxpayers question their governing bodies when successive governments restate the financial picture, when rating agency analyses conflict with government data and when unfunded liabilities are not recognized. The banks support Alberta's approach of presenting the annual budget on a consolidated basis, which brings in all provincial funds and agencies, of issuing quarterly financial updates and releasing public accounts earlier. There is only one taxpayer. There should be one consistent set of reporting principles across the tax jurisdictions. We urge Ontario to work with other governments towards this end.

(3) Governments need a score sheet to identify problem areas and measure improvement. Governments must report to Canadians on their progress in the deficit and debt battle.

(4) A number of provinces, including Ontario, have promised no new taxes. These promises must be kept to maintain government credibility. High tax rates reduce compliance and competition, and Canada already has high tax rates compared to its key competitors.

(5) Governments must continue efforts to ensure consistent economic planning and policies. For planning, the provinces must have a good idea about transfer payments. On the policy side, it does no good for one government to cut taxes if others raise them.

We urge you in the strongest possible terms to continue to press the Finance minister to balance the budget as soon as possible. We believe the above five steps will be important to this end. We also believe there is merit to studying Alberta's approach to more quickly address the problems while the economy is stronger.

In terms of taxes, the banks' 1994 financial results have received much attention, and this in turn has led to a focus on bank taxes. The banks are concerned that misunderstandings about earnings and taxes are being used by some critics to advocate that banks be singled out for tax increases in upcoming budgets.

With respect to earnings, yes, the numbers look big, but we are big companies. When looked at by several benchmarks, banks' returns are in fact not high. As a percentage of assets, Canadian banks earn lower fees and narrower margins than do US counterparts, and Canadian banks' return on assets and equity are lower than those of US banks. In 1994, the banks' so-called high profits yielded an average return on equity of 11.6% for the big six banks. This is less than the 12.1% allowed regulated industries by regulators. And compared to credit unions, banks have earned lower average returns on equity over

the past decade. The perception that banks pay little tax is also incorrect. A recent Conference Board report shows that financial institutions paid considerable and increasing amounts of taxes in the 1991-93 period. Governments are depending more and more on the financial sector for tax revenues. This is partly because they are imposing more and more levies that are not based on earnings, many of which levies are unique to the financial services industry. In Ontario, for example, in 1993, \$1 in every \$8 of corporate income and capital tax came from the big six banks. In 1985 the number was \$1 in every \$30.

Here are some facts about bank taxes:

For 1994, the six largest banks estimate their cash taxes here in Canada totalled \$3.4 billion. To put that in perspective, their worldwide after-tax income was only \$4.3 billion, and once the 1994 federal budget measures are fully effective, the tax numbers will be even higher.

Banks are already one of the most heavily taxed sectors in the country. They are subject to income tax at the highest corporate rates. Here in Ontario, for example, the rate imposed on banks is nine percentage points higher than the rate imposed on manufacturers.

Research and development tax credits have received some press lately. The industry has made claims, as provided for under the Income Tax Act. These claims, however, are insignificant compared to taxes paid. They represent about 1.5% of the \$16 billion of taxes paid for the same period, and these expenditures go to support a lot of software firms in Canada.

Banks also pay other government levies as regulated industries, such as the \$400 million in CDIC insurance premiums and fees to the superintendent of financial institutions.

The tax load of Canadian banks is high compared to that of their international competitors, particularly US banks. This contributes to the lower returns on assets and equity relative to US banks that we referred to earlier. Canadian banks have lost their place in the international scene. Ten years ago, four Canadian banks were in the top 50 in the world; now there is only one and it's in 50th place.

Why should you care, you might ask? Aside from the tax revenue numbers I referred to before, we think the banks' financial health is a matter that should concern many Canadians. We estimate that more than one in two working Canadians are bank shareholders through pension funds or mutual funds. Almost 50% of bank earnings are paid out in dividends to these shareholders. Earnings that are not paid out are used for capital investment, research and development, virtually all of which is spent in Canada.

Taxes cut into both what can be paid out and what is reinvested. Canadians are sending a clear message that they are strongly opposed to tax increases, but if tax increases are being considered nevertheless, we urge that they be applied evenhandedly across all sectors of the economy and types of enterprise. The historical tax system bias against the service sector and towards manufacturing should not go further. Secondly, taxes should be based on earnings alone. Taxes which do not



relate to earnings, such as those on payroll and capital, must be strongly resisted, as they greatly undermine job creation and economic growth.

My colleague will now address regulatory issues.

**Ms Barbara Amsden:** In terms of the regulatory burden, the small business working committee report that Judy Bussey referred to earlier said:

"Too many regulations are developed and administered with little consideration given to their impact on the competitiveness of small businesses. Government must regulate less, simplify paperwork, limit information requirements and get out of the way so that small business can focus on creating wealth and jobs. Reducing regulatory burden will save the government money and will yield tremendous benefits in terms of small business productivity and competitiveness. The committee recommends that the federal government remove unnecessary, ineffective or uncompetitive regulations, rationalize existing regulations across departments and encourage regulatory flexibility."

The same can be said of large businesses as was said of small businesses here, and the recommendation this quotation made to the federal government applies equally to the provincial governments. While we agree that different regions of the country have different characteristics and sometimes different needs, we do not understand why the regulation to protect deposits of a Newfoundlander, of an Ontarian and of a British Columbian should be any different. Financial institutions should be regulated by one jurisdiction only. Not only would the Ontario government save if it deferred regulation of financial institutions to one jurisdiction; businesses would save in compliance costs and could thus earn and pay taxes on higher income.

We know that the Ontario government has begun to tackle the red tape costs for small business. The federal government has just announced a very broad initiative in terms of regulatory rationalization and we urge the Ontario government to continue in these efforts to free both the Ontario government and businesses of costs.

**Mr Green:** I'd like to continue now with independent business initiatives and job creation. I'd like to just recognize Jim Mahaffy, who's a senior vice-president with Hongkong Bank of Canada, who is also a member of the Ontario committee, and Harri Jansson from the CBA.

We've entered into a number of initiatives during the year and one of the key ones was a partnership with government called Running Start, with a partnership with the Ministry of Economic Development and Trade. This is a mandatory educational program for all applicants under the new ventures-youth ventures loan program. It's proving to be extremely successful and in 1995 we hope to put through some 5,000 entrepreneurs. One of the key aspects of the course we've found is that much better quality business plans are being produced to support applications for loans and we see that as a very positive initiative.

The Ontario committee has also committed to running small and medium-sized business seminars throughout the

province and we delivered about 10 of these last year as part of our commitment. As a matter of fact, we're running one tomorrow in Oxford county and this is to educate small and medium-sized businesses on government programs, what the banking perspective is and what we expect to see from the perspective of completing business plans.

#### 1550

The Ontario committee this year is also supporting an initiative with the Ontario centres of excellence, recognizing that innovation is a very key aspect to financing businesses under the new economy. This is a big challenge to the banks and we're sponsoring a one-day conference on March 9 with the Ontario centres which will concentrate on how to finance new economy businesses.

During the year, we have a subworking group called the Ontario working group on employment equity projects. That reports to the Ontario committee and is concerned with employment equity. They have today agreed to provide up to 15 to 20 part-time positions for people with disabilities. It's a training program that we established with Humber College and the Canadian Council on Rehabilitation and Work.

In 1994, the CBA delivered two international trade finance seminars in Toronto and we also delivered another six around the country. We developed these as a partnership with the federal and provincial governments and the Export Development Corp to support small and medium-sized businesses in endeavours to enter or expand their export sales. As a matter of fact, we're running another seminar for small and medium-sized businesses on May 15 at the Etobicoke Board of Trade.

In 1994, the Ontario committee agreed to support the Ontario Investment Service and will be a founding member of the service. During the last two years, we've also provided support as a member of the advisory committee in establishing the service.

The CBA is also a member of the executive committee of the advisory board for the Canadian Chamber of Commerce led project to establish up to 30 small and medium-sized enterprises—SME—business networks across the country. The aim there is to try and encourage small and medium-sized businesses to grow where they lack, through critical mass. Through networking with other companies they can share technology. With the assistance of brokers they can also help tap the international marketplace.

We have a working group of the Ontario committee which is geared towards agricultural issues in Ontario. Already, they are working with the Ontario Pork Producers Marketing Board, the Canadian Grain Commission and the Ontario Cattleman's Association to try and seek ways to provide better financing to that particular industry.

The Ontario committee is fully committed to supporting the small and medium-sized business sector of the economy in Ontario. We urge the government to continue the partnerships with us in developing key educational programs which can help our small businesses grow.

I want to just close by saying that the small and medium-sized business part of our portfolio represents the lion's share of the banking portfolio. Small business loans are continuing to increase. We still have a way to go to find proper solutions to some of the new-economy-based businesses, but the banks are working very hard to do this and are seeking new ways of innovation.

On that note, I would like to leave it there so that we can then field questions from the members.

**Mr David Johnson:** Thank you very much for your presentation today. You indicated that we cannot grow our way out of, I believe it was, the deficit situation and that higher taxes are not acceptable. I agree 100% with you on both accounts.

Looking at the economy, the American economy, in the expectations of many people, has peaked and is probably going to slide down a little bit in the years ahead. Our economy was driven by exports over the past year, so our economy could follow that trend. You've indicated the necessity to balance the budget to tackle the deficit situation. First of all, have you made any estimates yourself of the Canadian growth, the growth in the GDP over the next four or five years? Can I ask you that question first?

**Ms Amsden:** We don't have that information with us here, but I am sure we could approach the banks' economists and provide that information to you, if you'd like.

**Mr David Johnson:** I would certainly like to have that, if I could, over the next four- or five-year period. Is it your expectation just in general that, let's say, a 3% growth would be—

**Ms Amsden:** That's what I've heard over the next two or so years. I don't know whether we actually project out five years. It's going to be so much dependent upon what happens in the federal budget and whether other provinces continue to get their fiscal house in order.

**Mr David Johnson:** I guess my point is that if the outlook is for diminishing growth and we have a deficit, the auditor says, of over \$10 billion in the province of Ontario, we cannot rely on growth to balance that budget. Do you agree with me, then, that there's going to have to be downsizing in the provincial government to balance the budget?

**Mr Harri Jansson:** If I could just jump in, it's between a rock and a hard place because inflation, being what it is, is going to limit growth, and if inflation's running at 1% and 2%, you most likely are not going to get 7% and 8% and 9% and 10% growth that we got in the early 1980s as we spun out of the recession. That's what's going on in the US. They're worried about inflation so they're raising rates and it has a whiplash effect on us. So we can't grow out of it. I think that's the point that the CBA is making.

**Mr David Johnson:** So expenditure reductions are going to be necessary in government?

**Mr Jansson:** Absolutely.

**Mr David Johnson:** My time is going to expire, but in terms of the loans to small and medium businesses, you've gone into quite some extensive analysis of what you've done in that regard, but there is a perception out

there, I'm sure you'd have to admit, that the banks have not been kind, particularly to small businesses. It seems to be that there's this opinion that it's cyclical and that there are periods when the reins are loosened up and the money is more available to small businesses, and there are other periods when in fact it's very difficult for small business, even legitimate ones, to get assistance from the banks. I wonder, is that your perception and why is that so and what can be done to have a more uniform, helpful approach to small businesses?

**Mr Green:** That's a good point, David. The recession certainly has had a big impact on businesses that would normally perhaps have borrowed to expand but didn't. There was certainly no shortage of funding for good, qualifying businesses. I think where we've seen the biggest problem is on the quality of the presentations, that many businesses did not understand how important a complete and viable business plan is, and that's what we're trying to overcome with a number of these seminars.

One thing I would say, though, is that over the past three years, despite the recession, we've seen continued growth in the small business portfolio and I think it stands somewhere in the region of about \$30 billion right now, which is a sizeable portfolio, across the country. The Small Business Loans Act changes that took place last year have been a particularly effective program. The program has since been under review with the government, as you know, but lending by the industry has been increasing sixfold over the last year. In fact, we oversubscribed and they had to review the lending cap.

**Mr Jansson:** If I could jump in, 80% in numbers of loans that the Canadian banks make are to small and medium-sized businesses, so it's the biggest commercial loan portfolio we have in numbers of clients. Surveys tell us that 70% of the small business community are happy with the service they get from the banks. That leaves 30%.

Yes, I think we're recognizing that we haven't done as good a job as we should. All the banks have started what we call emerging economy lending or high-tech lending, because a lot of the growth in small business has been in the intelligence business, the software business, and it's a very difficult business for us to lend into in that we're traditionally asset-based lenders. We've had to learn what that business is all about and we are all starting to do business there, but the assets go up and down in the elevator every day and you'd better understand that business before you lend to it. But I think we've all recognized that there is a future there and that's where the growth is coming from and so we have to do a better job.

**Mr Hope:** I'm going to start off first by complimenting you on the work you're presenting to us, that you're saying you're doing, because I'm going to now shoot this report full of holes.

When I'm hearing the banks come before this committee and saying what good work you're doing with the small business community, then I have to ask you: Why are you allowing regional decisions to be made on local economic growth instead of allowing those local bank



managers, who you're supposed to be paying money to do this decision-making process for you—allowing it to be done in regional aspects. You're calling in notes of small businesses because they fall in a category—they're not looked at as an individual—called high risk. You call those notes.

The government has to come in and support those businesses in order to make sure we can maintain those jobs in those communities. So when you talk about your small business working together, I'm saying I'll give you a prime example to go to, right into Chatham, and talk to some of the businesses there about the attitudes of banks, the regional decision-making process out of Hamilton for Chatham.

1600

The issue of taxation: Let me tell you what some of the small business people who deal with the banks—about your instant tellers and how they're taking away from the human element of things where I can start dealing with a person. When I'm depositing my money or doing anything in the bank I want to talk to a human being. People are saying, and people are very frustrated and this is everywhere from seniors to young persons, that they're being forced into this instant teller process. They're saying that if you're moving away from paying somebody a wage, you should pay taxes on that machine itself, that there should be a tax levied against it, because what you're doing is taking away a potential opportunity of an individual to pay taxes by hiring him there, by putting a piece of technology in there.

I hope you're following me, because I've only got four minutes. I wish I had more time. I'd like a longer discussion. The unfortunate part: CIBC out of Hamilton won't return phone calls.

The issue dealing with debit cards, where you're saying we want—because you work off debt. You make your money by my borrowing money for a house, a car, a snowmobile, a boat and all that good stuff that I'd like to have that I can't afford, but you give me the money anyway because you make interest off that. Those are the things. As soon as you start talking about a debit card, you allow me to now access my banking, but the small business person is being charged a levy fee for having that special service at his video store or whatever.

I must express these views because, I'll tell you, I have a lot of people angry at the banks right now, and it didn't help when you raked in a \$14-billion profit.

**Interjection:** Four billion.

**Mr Jansson:** I think you're a little confused.

**Mr Hope:** No, well, this is what they're saying. I know what it is, but they're saying these things are coming at me and they're attacking us. The small businesses are very angry with the banks because no local decision-making is being allowed by the local bank managers. I understand what the banks are talking about in their report, but I'll tell you, it's not reality happening in our communities where regional decisions are impacting on employment opportunities and growth in our communities. Hamilton doesn't know what Chatham's all about. Chatham knows what Chatham's all about. Wal-

laceburg knows what Wallaceburg's all about. The citizens there are asking that they be serviced in the human element of things when you're dealing with money.

**The Chair:** Mr Hope, you've pretty well expired your time, and if you'd like the banking community to answer you, you should give them some time.

**Mr Hope:** I'm asking the banks what they've got to do. It's nice that they come before us here, but they've got to get out and start talking to the people in the smaller communities who are being devastated by decisions that are made in regional aspects instead of the home base and the small community aspects.

**Mr Jansson:** I can't speak necessarily for all the banks; I can speak in particular for the bank I'm employed by. Decisions in Chatham are made in Chatham, period, for 99.9% of all loans we make.

**Mr Wiseman:** It's the worst bank. I get the most complaints from the Bank of Montreal.

**Mr Jansson:** Well, you may not like our decisions, but they're made locally.

Turning to ABMs, the branching network in Canada has pretty well stayed stagnant. We have not closed branches, on average. The number of people we employ in Ontario, for example, borders on 90,000 people. So we are not shrinking the branches. The ABMs tend to take up the slack, where for people who want to do a simple deposit or pay a bill, it's easier and it's cheaper for them to do it that way.

Debit cards are a lot cheaper for your merchants, for the business people, than charge cards, plus the money is credited to their account instantaneously. So it's a product they have asked for in unprecedented numbers. We can't get the manufacturers to make the debit card machines fast enough because the small businesses out there are saying, "That's the best way I can handle my cash."

**Mr Hope:** My chamber of commerce will likely be notifying you about your comments. I'll show them the answers, so that way they understand what you're saying.

**The Chair:** Mr Kwinter. We've got to move along. Our time's running very short.

**Mr Kwinter:** I'd like to pursue another area, your recommendation number 3 in which you strongly urge the Ontario government to reduce its costs by withdrawing from the regulation of financial institutions.

I'd like to just briefly give you an example of why in theory I agree with you, but in practice it's a lot more difficult. I was the Minister of Financial Institutions, I'm sure you know, between 1985 and 1987 and brought in the Loan and Trust Act.

To give you an idea of the variance across various jurisdictions, the province of New Brunswick adopted our act in total, including typographical errors. They just substituted "New Brunswick" for "Ontario" and issued that regulation.

The province of Alberta's minister at the time, Elaine McCoy, laughed at me at a financial ministers' meeting to say, "We have no need for any kind of regulation," and I'm sure you know that shortly after that they had a

major financial collapse that in fact caused ministers to resign because there was no regulation.

Then you have the federal government. I can tell you that when I brought in that legislation, the then-minister, Tom Hockin, said it was unnecessary because in a matter of a month the federal government would be bringing in its regulations. Well, it took four years for that regulation to come out, not a month.

What you have is a situation where you have said yourself at the beginning of your presentation that half of your activities are in Ontario. Ontario is the financial centre of Canada and I have no problem with regulations that are adequate, if they're administered by the federal government, as long as they're not at the lowest common denominator. That is the problem; that's the practical problem. So I'd like to get your comments on that.

**Ms Amsden:** When you introduced your comments you read part of the recommendation, but if I can read the remainder of it: "We...urge the Ontario government to reduce its costs by withdrawing from the regulation of financial institutions which are, or through coordination with the federal government and other provinces can be, effectively supervised by another, single regulatory body..."

We agree absolutely you need regulation. The point is, you need effective regulation. We don't necessarily think that, just because you're being regulated by two and three and four and five and six different provinces, you're having better regulation than just through one. The key is working and getting that one type of regulation working well.

I think we are beginning to achieve it. I recognize absolutely your point that you had to introduce regulation because the federal government was not acting quickly enough. That's very unfortunate, and we had urged the federal government to take action a lot earlier than it did as well. We will continue to work to see that we have one level of effective regulation.

**The Chair:** I'm sorry, but our time has expired. I thank the Canadian Bankers Association for making its presentation before the committee this afternoon.

#### INCOME MAINTENANCE GROUP

**The Chair:** The next presentation this afternoon is by the Advocacy Resource Centre for the Handicapped. If representatives of the centre would make their way forward, and if you would please make yourselves comfortable and identify yourselves for the purposes of the committee members and Hansard. I'll remind you that you have 30 minutes within which to make your presentation and field questions from the committee members.

I would ask those who are having private conversations if they would please go outside the committee room so that we could have some order and continue with the business of the committee.

**Mr Scott Seiler:** My name is Scott Seiler and I'm with the Income Maintenance for the Handicapped Co-ordinating Group. The gentleman on my other side here is Mr Harry Beatty, legal counsel for the Income Maintenance Group and also legal counsel for the Advocacy Resource Centre for the Handicapped.

I think what I'll start to do is introduce the Income Maintenance for the Handicapped Co-ordinating Group by saying that we've been in existence since 1978, dealing with income-related issues for people with disabilities—everything from social assistance issues to work-related issues, removal of barriers in the work environment or to the work environment, looking at accommodation needs of people with disabilities, as well as insurance, workers' compensation and other issues.

**Mr Harry Beatty:** We'll try to be brief in our presentation so as to give time for questions.

Disability compensation and other disability programs are often discussed very generally and we thought we would provide some figures today, even though they have to be used carefully, just to give a bit of factual background. The figures are taken from the Health and Activity Limitation Survey which has been done following the last two censuses by Statistics Canada. We have only given Ontario figures though, not national ones.

#### 1610

Page 3 of our submission gives the best estimate by HALS of the extent of disability among the Ontario population. You have to keep in mind that this includes people with only a mild functional limitation as well as a moderate or severe one. The total is considered to be 15.9%, and you can see that for children of 14 and under it's about 6.7%, rising to a rate of over 43% for seniors. However, as you'll see, many of the people, notwithstanding disability, are active in the workforce and living in the community.

As we note, the rate of institutionalization in health care facilities is only 1.7% for adults under 65. So the vast majority are in the community. Again, it is a figure that has to be looked at, though, because our understanding is the HALS data just look at regulated facilities, nursing homes, homes for the aged and so on. We all know that many thousands of Ontario citizens with disabilities live in unregulated settings: boarding homes, care homes and the like. Even for seniors, until you get to what you might call the very elderly group, the rate of institutionalization is not that high. In the 65 to 74 group, it's only 4.2%, but as you would expect, when it gets to 85 or older, it approaches 50%.

Another interesting figure is that looking at the 15 to 64 group—for some reason Statistics Canada seems to start the age of adulthood at 15 for its data—actually the majority do not receive any disability-related income. This may be because people are working, because they are supported by spouses or other family members, and of course the 15- to 17-year-olds who are included and who are living with their families are not eligible to get disability-related income on their own. As well, others, especially in the older group, may have some kind of pension or other early retirement income.

Of those who did receive disability-related income—now on page 4—and again we have to be careful with the data, the plan that most people depend on is actually the CPP, or a few Ontario residents get a Quebec pension too. Workers' compensation was received by close to 80,000. Then there are UI, sickness benefits, motor vehicle benefits, disability insurance, social assistance or



welfare such as family benefits. Also, a lot of people with some degree of psychiatric disability wind up on welfare if they cannot meet the test of permanent unemployment to get family benefits.

It's clear to us I think that these data are not perfect, because the number of people on social assistance has been underestimated by HALS. This is 1990, not 1995, but even then the estimate was low. There are now over 130,000 people on family benefits as persons with disabilities alone, and as I've indicated also, some with fairly significant ongoing health problems on the general welfare system. Nevertheless, it gives an idea of the extent of the problem. It's also clear that many people receive income from more than one source and often there's an offset where one is deducted from the other.

In terms of employment—these are the last data to look at—looking again at all levels of disability together, close to 50% of people with disabilities are in the workforce, but of course the percentage of those with a mild disability, 62.8%, is much higher than moderate or severe disabilities. Nevertheless, I think it's significant that close to 20% of those considered as having severe functional limitation by Statistics Canada were still working. The unemployed group, under the Statistics Canada definitions, includes only those who have been recently looking for work. Even among the group that is not in the labour force or that reports itself that way there were a great many who answered questions in the HALS data showing that they did believe they could work if employment barriers were addressed and if other things were accessible, like job training and so on. So I think this would lend a little bit of an overview to some of the recommendations we have to make.

Starting on page 5, clearly we're concerned that many of the disability compensation programs just listed above in paragraph eight are being cut back in some manner. Family benefits levels, like all social assistance levels, have been frozen for a couple of years. There has been a de-indexation begun, albeit a partial one, of workers' compensation benefits. There are proposals to reduce motor vehicle accident benefits. It's hard to comment on disability insurance plans because they vary from insurer to insurer and employer to employer, but very often, in the private sector especially, there is no inflation protection at all, which again affects most the people who are most disabled and who are disabled younger. One of the major problems in that area is actually finding out what people are entitled to, as usually what folks have is a pamphlet in which the most important statement is usually that you can't rely on the pamphlet. The actual entitlement is given by the policy and short of litigation you usually can't get the policy.

The plans that are primarily in federal jurisdiction are cause for a lot of concern as well; it seems that the Canada assistance plan may be cut significantly. Our best estimate, and we have to admit it's just a ballpark, is that about 30% of the cost-shared programs under CAP in Ontario are in some way related to disability. I've already mentioned over 130,000 people on family benefits Gains-D. We find that the federal government is also restricting Canada pension plan disability. The plan has an especial-

ly strong work disincentive in that they are very quick, in our experience, to cut off people who attempt training, employment or return to work, or in some cases even volunteer work.

There's also concern that as part of the social security review UI sickness benefits will be cut or put into a lower tier for repeat users. Well, some frequent users are people with recurring disabilities. Also, the disability tax credit is being restricted by the federal government.

We thought it was useful just to bring together all these threatened cutbacks in one place to show that there is a real concern about cuts to disability compensation. We feel that if there were some more systematic review of how these programs fit or don't fit together, it might be more useful than what is usually done now, which is to look at the programs one at a time, and the result is simply an offloading of costs on to another program. For example, the Ministry of Community and Social Services and the federal Human Resources Development seem to be sort of going back and forth in terms of the provincial government getting recipients of Gains-D or family benefits to apply for CPP, and now CPP is doing its own review, which presumably will result in some people being cut off and sent back to social assistance. We think it could be done better.

#### 1620

Another example of offloading, we believe, is that motor vehicle no-fault benefits have been made secondary to workers' comp and long-term disability. Now, perhaps that'll be reversed in the current review of workers' compensation, but this kind of thing, making one program secondary to another, is not any true saving to the public or to business or anyone else, and just seeing how costs could be shifted from one program to another, one level of program to another, is somewhat distracting from what would be more useful: to see if there's a way in which program costs could be reduced over the long term by making people more independent and by in particular encouraging return to employment, where we believe there's a real potential. Scott, perhaps you could pick up on employment, since you've been quite involved in that issue.

**Mr Seiler:** Sure. I think the barriers to employment are one of our biggest problems with people with disabilities at this particular time. We have many, many barriers.

The primary barrier in the social assistance system today for people with disabilities is the barrier of categorical exclusion from most training because of how people are qualified on the system as being unemployable. That is one of the largest barriers that people with disabilities face in getting training to go out and get a job.

We also have many barriers around education as well and other things that must be remediated prior to going to an actual training program that is looking at training people for a specific job.

One of the problems with remedial programs is that they're often difficult to get any kind of accommodations for. People have problems accessing them because of physical locations for academic upgrading. There are all

kinds of barriers there that make it very difficult for somebody even to start the process, let alone to get really involved in the process where they're actually in a real training program.

We also have barriers in the province where most people have been on provincial social assistance systems for a long period of time—the average is approximately seven years—and people do not get access to training, because of that, in fast-tracked ways. They have to wait around for what we call VRS, which is vocational rehabilitation services. The waiting lists vary across the province. They can go anywhere from three years in some jurisdictions to 18 months, a year, in other jurisdictions, depending on the area and how the area office is dealing with the issues.

We're also looking at a lot of barriers around people accessing the kinds of equipment in a timely manner that they need to get employed, or if they're offered a job and they need a computer, it doesn't do well for them to have to wait six months to get one. The job is now, we need a computer now, and that's what has to happen. We need fast-track methods of that going on; either that or people will lose opportunities they could have gained if they had had the equipment faster.

We have another really significant issue, and Harry has mentioned this: the transfer from the FBA system to the CPP system where there's a shared cost involved of the person's income. That saves the government money, but the problem is that it's creating a system where the most employable people with disabilities who become unemployed and, for instance, run out of UI and end up on social assistance and then are referred to the CPP system end up permanently unemployable. Quite often the FBA system here in the province will ignore the issue of people permanently unemployable and will still try to help people obtain some employment, but once they end up on the CPP system they're stuck, and it's not for a short time; it could be for a lifetime. So we have a really significant issue.

We've also got lots of problems in programs. For instance, there was a lot of work done to create Jobs Ontario. Jobs Ontario has worked fairly well for many, many people, but it has not for people with disabilities because there is no budget for accommodations, and accommodations are what is going to make training work for people and employment work for people. That has to be there or people will not be able to work. All the goodwill in the world won't help.

We also have some other models. During our discussions with the federal government around the reforms and our proposal for the reforms, we very much backed up a system of the Roeher Institute here in Ontario, which is a think tank dealing primarily with issues around people with developmental handicaps. I think their idea is fantastic, which is basically to take services for people with disabilities out of the welfare stream, where you do not have to be on social assistance to get programs for instance, you don't have to be on social assistance to get specialized equipment or to get an attendant or to help pay for an attendant.

It is very important for people with disabilities to have

that kind of access to accommodations outside of just a computer. People who want to go out and work, go out and get trained and go to school sometimes need an attendant to go with them and somebody to be with them the whole time during the day. It's very important for those things to be done, but, at the same time, if those types of services are only connected to the welfare system, that means that the person who is out there and is working has to pay for that or the employer has to pay for that somehow out of their own pocket, and quite often that means the person doesn't work. That becomes another barrier.

One of the ways and means that the income maintenance group believes is a primary method of getting people employed in this economy is through specialized initiatives. For instance, self-employment and CED, community economic development, initiatives are primary ways of getting people with disabilities employed.

We do have problems. Even though we have an employment equity system in Ontario, it will not cover a huge portion of the labour market. Many small businesses, in fact all small business, will be exempted from it. That's where 87% of all jobs in the last 10 years have come from all across this country. If those small businesses are exempt and we've got lots of people who would like to be employed, it's going to be in the small businesses that they get employed, or to become self-employed.

Opening up and getting resources to those people who would like to start their own businesses is very important in this community, and there have been some initiatives that have been quite successful. The Innovations section of the new JobLink program has been quite successful in helping disabled people. In fact, that's the main group that program has helped, not that it was put together to help them specifically or them only, but it has ended up helping a huge number of people.

We've got some really good programs out there where we can do things, but we just need some expansion on these ideas.

I'll open it up to questions.

**Mr Jamison:** Thank you for your presentation. On page 4 there are some numbers, and I just want to verify them and put a small question: The people with disabilities who are attached to social assistance or welfare programs directly in the province number some 79,195? Is that figure correct?

**Mr Beatty:** It's the figure that Statistics Canada came up with, but, as it says below, we believe it's low. I don't know if that's a consequence of their methodology or whatever, but it clearly is lower than—

**Mr Jamison:** And basically the unemployment rates are running at 37% for mild disorders, mild disabilities, 59% for moderate and 80.2% for severe. That's the calculation I get here.

**Mr Beatty:** Adding "unemployed" and "not in the labour force" together, yes.

1630

**Mr Jamison:** I've asked this question at other times here. These are some of the most vulnerable people in



our society that we're talking about, and the issue is around budgetary measures, deficits, how we deal with the real problems that governments are having along the way. There has been a policy put forward by another party to reduce welfare rates by some 20%. What effect would that have on people—

**Mr Carr:** Seniors and the disabled are excluded.

**Mr Jamison:** —within the system with disabilities? Again, UI assistance has been cut, time on UI, sending people that way quicker, I guess. What effect do you see that having?

**Mr Seiler:** Any dramatic cut in the rates of social assistance today will affect thousands of people who are so marginal that they pay their rent and from then on in the month a food bank is how they eat. It will actually, I believe, cause thousands of people to be homeless in this province if there are dramatic cuts in the rates of social assistance today. Most people are very marginal, especially in the large metropolitan areas, where they're paying \$700, \$800, \$900 in rent and only receiving \$930 for a welfare cheque, and that is the average FBA cheque for a single person with a disability.

**Mr Beatty:** Actually, the maximum.

**Mr Seiler:** The maximum, yes: \$900 is about the average; \$930 is the max.

**Mr Kwinter:** Thank you very much for your presentation. You list the various organizations that are active members, and you also list some groups that are corresponding members. I don't know whether People First is a corresponding member.

**Mr Seiler:** Yes, they are.

**Mr Kwinter:** They are very active in my riding and I meet with the president and their members on a fairly frequent basis. As a matter of fact, they seem to have latched on to me, and I meet with them an awful lot.

These people are developmentally handicapped, and one of the big problems that they have, of course, is that they don't fit in: They haven't been handicapped because of an accident or because of a disease or whatever reason, and they're out there kind of in limbo. Mr Seiler, I was very interested in what you had to say about some of the help that could be provided to them if they could go out of a sheltered workshop and into a regular workshop and have somebody with them, or if they could have someone there to help them along as they try to overcome some of these problems. Can I just have you expand on that a bit?

**Mr Seiler:** Sure. Many people in the field we're in very much state that if there were adequate supportive work programs, there would be very, very few, other than people who are actually in bed in a hospital, who would not be able to do some form of work. That might be on a very low competitive level for some people, but they would be occupied in doing something that would be productive for themselves.

The supports needed are many, and vary depending on the types of disabilities. The supports could be financial to get specialized aids and devices into a place to fix the environment so the people can go in and work, or you could see a human support put into place so people have job coaches and have some form of supportive employ-

ment where people go in and assist the person in working.

You must remember, though, that's not just an employment for one person; that's really an employment for two people, because that supportive person is also employed there. It's not just looking at one person; it's two, really. You're employing two people, basically to help to employ one. Some people might say that wouldn't be cost-effective, but I'll be very honest with you: Institutionalization isn't very cost-effective either, and keeping people at home doing nothing is also very inefficient in terms of cost-effectiveness, as well as the human value that is lost there.

**Mr Carr:** Following up on Mr Jamison's comments, I don't want anybody to believe me or Norm. What they can do is call 1-800-903-MIKE, get the plan and read it themselves. It's either 903 or 905. Or call my constituency office at 905-842-5592. In it we say that the seniors and the disabled, whom this government has frozen over the last two years in terms of the rate, should be taken out of the social assistance system. The cuts we're talking about are for the able-bodied people, and again there are classifications of that as well. We believe that seniors and the disabled have been punished, because what happened with social assistance is that when the numbers grew they're the ones who had the rates frozen. The most vulnerable have fallen farther and farther behind.

As I say, don't believe me or Norm Jamison; read the plan yourself. Our program calls for taking the seniors and the disabled out of the social assistance system and protecting their rates. In fact, I submit to you that we could probably give you more in terms of inflation protection if we took the other people out. Are you in favour of that program, of taking the seniors and the disabled out of the social assistance system?

**Mrs Haslam:** At the expense of other people?

**Mr Carr:** Yes. You can read the plan and what it means. Other people will be cut. They will not.

**Mrs Haslam:** Twenty per cent out of your social assistance budget, at the expense of other people.

**Mr Carr:** Let him respond. I don't want to hear from you, quite frankly.

**Mr Seiler:** There has been all kinds of talk in the past around things like guaranteed annual incomes for people with disabilities, which is the same thing as taking people out of the regular rolls of social assistance. There is not a lot of difference from that. Even in those schemes there was always talk of there being a difference for those who are on a guaranteed annual income for a disability, so this is not a new thing, really, in many ways.

But the disability movement has always resisted anything that would harm other people as well. So we would very much caution that single parents and the single employables must be dealt with in a compassionate way that will end up doing the same kinds of things for them as we are wanting for ourselves.

**Mr Carr:** What we've got is that a single employable right now is punished on social assistance: You can't work; anything you make, they take away. We're going to also eliminate that so that if you've got a part-time

job, you would get the social assistance and you would also be able to keep that. I understand that you don't like to pit people, and I understand what Karen was saying—

**The Chair:** Mr Carr, our time has expired.

**Mr Carr:** Time is up, but I hope you realize that unfortunately your people are being cut as a result of the increase in social assistance, and I don't think that's right. Thank you and good luck.

**The Chair:** Thank you for your presentation.

*Interjections.*

**The Chair:** Order. If members would like to discuss this, would they please take it outside. Order, please.

**Mrs Haslam:** I find that offensive, to blame people on social assistance—

**The Chair:** Order, please.

*Interjections.*

**The Chair:** A five-minute recess.

*The committee recessed from 1639 to 1643.*

ONTARIO ASSOCIATION FOR COMMUNITY LIVING

**The Chair:** Come to order. Our next presentation is by the Ontario Association for Community Living.

**Ms Cheryl Easton:** Just before I start officially, I want to tell you that Mr Kwinter and I have a friend in common who regularly humbles us from OACL about exactly what we are doing right and what we're doing wrong. He always seems to be more aware of what we're doing wrong than what we're doing right, and he wants it solved like that. I think that's interesting, that we have him in common.

Scott Seiler was saying what the Roeher Institute, which is overseen by the Canadian Association for Community Living, was asking for around the social reform in Ottawa: a level playing field, that people with disabilities would have a level playing field before they had to compete.

We appreciate the fact that perhaps that would mean that money would have to be pumped in up front, but we have proven time and time again around employment, from my own experience in Mississauga, that the first year costs \$6,000, then \$4,000 and then \$2,000 on an average. It's worth it because a lot of times people will then take over the support where the person is working; the other employees will support people. So I think it's really important, when you hear about the social reform, that it is definitely a level playing field as opposed to much more. That was just a comment I felt you should have.

Mr Chairman and members of the finance and economic affairs committee, I am Cheryl Easton, president of the Ontario Association for Community Living. I will be sharing this presentation with Barbara Thornber, our executive director.

We are participating in these pre-budget consultations on behalf of people who have an intellectual or developmental disability. Our members share a vision of community which welcomes all people and provides the support people need to participate effectively. Our association has a wonderful history of over 40 years and today we are a federation of 116 local associations with

a combined membership of approximately 12,000 people. You do not have to be a member to enjoy supports, which I think is important.

The other thing is, what you have is not what I'm saying; it's a backup.

Although advocacy was the prime activity at the local level in the early days, it has often been coupled by necessity with the development and provision of various community-based educational, vocational, residential and family support services.

Over the past years, Ontario has been faced with a deep recession and the government has been forced to make painful cuts to social programs. We acknowledge that the government has had to make hard choices, but lack of consultation around decisions to cut funds to particular programs has strained our faith in this government. In November 1992, our frustrations with the government's unilateral actions led to a massive rally of more than 4,500 people on the Queen's Park lawn.

We appear before you today because we recognize that we must continue to dialogue with the provincial government if we are going to affect the course of public policy and ensure the successful achievement of our mutual goals. Today we are going to present to you our position on individualized funding and seek your support for increased spending on the special services at home program.

We believe that individualized funding is the key to ensuring that people with disabilities can live full lives in their communities. For the last two years, the pursuit of this policy has been one of OACL's two priorities, the other being efforts to achieve inclusive education.

Individualized funding is a system in which funds for services are individualized, meaning they're tied to the person, not a program or an association or anybody else. The individual either manages the funds and engages support staff himself, works through local associations for community living or hires a manager to perform this function. Funding is based on the cost of providing the supports required to achieve the planned lifestyle and is flexible and portable. A lot of people get left behind when their families retire and go to another area of the province because they haven't got any money tied to them and they can't get into a program in that area.

Individualized funding is based on the principle of individualization, which asserts the basic human right of the person to have his or her unique capabilities, interests and needs recognized and used as the basis for planning, developing and delivering such supports as are required by an individual to live, learn, love, work and spend personal time. In other words, what we're talking about is someone basically just having a life like we do.

We are seeking your support for increased spending on a program which is already demonstrating the success of the concept of individualized funding here in Ontario. This program is known as special services at home. We are seeking a shift in the Ministry of Community and Social Services funding, away from institutions to at-home family support.



OACL is seeking the closure of all institutions serving people with developmental disabilities in this province, and that can be argued on a whole bunch of levels, so that these funds totalling over \$280 million in 1993-94 can be diverted to individualized funding systems, such as special services at home. Currently, the province is spending over \$110,000 each year on average to keep approximately 2,500 people in institutions, which we consider to be dehumanizing.

We see a need for a budget of \$52 million to meet the groundswell of demand for the special services at home program. This program provides funding directly to families to support the special needs of a child who has a developmental or physical disability and adults who have a developmental disability who are living at home with their families, and a lot of times these people are in their 70s and 80s.

To be eligible, they must have an ongoing functional limitation as a result of a disability and must require support beyond that which is a normal family responsibility. The funds are used mostly to hire support workers. Families may administer the contracts themselves or they may use the help of a transfer payment agency. The special services at home program was established in 1983 and in 1993-94 it supported 10,000 families in Ontario at a cost of \$26 million. The average grant in that year was \$2,600.

Compare the average of \$2,600 to the average-per-person expenditure of \$29,000 that year for another 30,000 individuals served by institutions and transfer payment agencies in Ontario. The special services at home programs are the least expensive and the most cost-effective programs for people with developmental disabilities. Why? Because it uses less overhead. It can be individually tailored and it builds on the commitment of family members and it gives everybody a lot of dignity.

In 1994-95, a \$3-million increase in the special services budget to \$29 million represented a 10% increase, but netted a drop of \$300 in the average grant, down to \$2,400. The reason is the growth in the number of families served. Why are demands on this program increasing? Because of constraints on other programs and because more people are living at home with their families by choice.

In response to the increase in demand, Minister of Community and Social Services Tony Silipo announced on January 1, 1995, an additional \$6 million in support for this program. This increase is in the right direction and makes the goal of \$52 million seem more attainable. However, the increase will average only about one more hour of support per family per week.

The media attention on the Wilkieson tragedy has highlighted the seriousness of the need to make supports easily accessible for families caring for people with significant disabilities at home. While no one can know what precipitated this tragedy, it is confirmed that the Wilkiesons had had their special services at home appeal turned down. They were asking for about two hours more per day of support for their son Ryan.

On January 1, the Honourable Mr Silipo further announced a \$1-million commitment for community

innovation funds to promote individualized funding approaches for people with disabilities and their families. This is another small but significant step in the direction towards a support system which recognizes the uniqueness of individuals.

My friend Barbara will now speak.

**Ms Barbara Thornber:** The point I'd now like to talk about is the expenditure control plan. Our local associations have been asked to take a 1% cut in expenditures for 1995-96. This is a real blow to these service providers who are already devastated by last year's 0.5% cut. While a cumulative decrease is 1.5% for next year, it's just added to a variety of other cutbacks which have combined with rising costs and have totally impacted the bottom line by considerably more than that 1.5%.

The first example, of course, is the social contract. The social contract had represented a 0.75% decrease in funding to all our local associations. We felt very confident that we could manage that 0.75% decrease straight-lined over three years. In fact, Cheryl and I were very active in negotiating that for the community services sector, but we didn't realize that on top of that we'd be hit with the 1.5% and also various government programs which have increased programs.

Rising costs also include the increase in minimum wage and increases in the cost of benefits to staff. Of course, we're not arguing that there isn't significant merit in increasing minimum wage, but without a corresponding increase in the allocation dollars from the province, the effect simply means that there are fewer hours of staffing available to support individuals.

The increased cost of workers' compensation coverage is causing us incredible alarm. Costs appear to be out of control. Many of our associations have actually backed out of the WCB program, are going to private carriers and are having a fair bit of success in that. I think you're going to see more and more associations looking to the lead of these associations that have done that.

Other cost increases that our sector has had have been insurance premium increases, and of course the addition of retail sales tax to insurance premiums on all our health plans, higher UIC rates and unavoidable increases in utilities, taxes and rents. So it's not just the 1.5% and it's not just the 0.75%. It all adds up to a very significant decrease in funds all of which relate to services and supports to people.

At the same time, the burden of administration has also increased, because in addition to managing these budget cuts, our local associations are also responding to various government initiatives such as pay equity; the MCSS restructuring; employment equity, for which we are very thankful and fought long and hard to get but it also has an administrative cost to implementing that program; also the MCSS accountability project, as well as various new government legislation, one being Bill 120.

Again, these are all things that we support, but what we have to do then is find ways to find more dollars to work on these tenancy agreements, which we've never had to do before, and to share those across our sector.

What's happened is that as we've had to take these

different cuts through cost increases and cuts from government funding, it's been the management and administrative support staff who have been eliminated as we've downsized. So the very people whom we need to assist our locals in dealing with these government initiatives and programs are no longer able to be on our payroll. We've downsized, we've flattened out our associations and we have very few people now who can do the kinds of jobs that we're being faced with.

Just as an example, over the past two years our largest association, the Metropolitan Toronto Association for Community Living, has eliminated the equivalent of 26 full-time staff positions, primarily all administrative. In 1995-96, MTACL anticipates reductions based on the percentage figures I've just given you in the neighbourhood of \$400,000 to \$500,000. Proportionate reductions will be felt even more painfully by our small associations, many of our associations in the north, that have budgets of \$2 million and less. If you just look at what is happening to Metro and look at that on the same ratio with the smaller associations, you can understand what that means to cuts in services and supports.

These cuts proposed for 1995-96 are hurting the most vulnerable people in our society. We're reducing the hours for alternatives to sheltered workshop programs, we're having to reduce the family support staff and we're having to reduce respite services. All of these will have a direct effect on families who have kept their sons and daughters at home. We have a whole new generation of families who are now keeping their sons and daughters at home, and that's what we ask for, for special services at home.

But we have another generation of families who went against the trends of the times and also kept their family members home, and they're the ones who are now aging, who are 70 and 80 themselves and have adult children in the 50-plus era who also need support at home. Without significant increases to special services at home and without a stop on the cuts to our local associations, we're afraid that additional cuts are going to push some families beyond their coping abilities. We see families who are already stressed and doing more for their sons and daughters than anyone can expect.

1700

We're concerned that we may see an increase in abuse, because having a child with a disability at home 24 hours a day, 365 days a year, no matter how much you want that child to be at home, can be very taxing sometimes. Many of these families don't have extended families to go to and are all alone or are living on fixed incomes, and many of the families are elderly and facing new and significant needs in their own lives that they never dreamt of.

We've reached a point where our sector can no longer do more with less. We've tried very hard to cooperate with the social contract program, but we're at a point where we just can't take any more cuts. I don't know how we're going to take what's proposed for 1995 and 1996. These cuts are threatening the basic human rights of our most vulnerable citizens.

We appreciate this opportunity to spend a few minutes

just touching on some of our concerns to the standing committee. We've presented our views on the need for increasing the funding for special services at home to \$52 million and the need to avoid further cutbacks to our sector's expenditures. We haven't touched on employment programs, but ARCH did that very nicely for us. We believe that our remarks today represent the views of our 12,000 members, most of whom are people who have disabilities, and their family and friends, people who daily experience the consequence of disability labelling.

We've tried to be constructive with some concrete suggestions in some areas and we really want to move ahead together to ensure that we can build a society which includes people with disabilities, and by "including" we mean exactly what Cheryl said at the beginning, that if we could all start off on a level playing field so that the cost of a wheelchair or the cost of a support person or any other kind of accommodation did not have to come out of the basic need assistance that other individuals get, we think that would make for a much better Ontario.

**Mr Kwinter:** Thank you very much for your presentation. I'd like to ask you a couple of questions, just because I don't have the basis for a comparison. You call for an increase of expenditure of a budget to \$52 million. What does that represent? What is the current or present budget?

**Ms Thornber:** It's \$29 million.

**Mr Kwinter:** So we're talking about a substantial increase.

**Ms Thornber:** Yes, and then we got the \$6 million on top of that on January 31, so we're up to \$35 million.

**Mr Kwinter:** The other thing I'd like to know about is that in your program, the special services at home program, you talk about children or individuals who are in the care of their families. What about those who are developmentally handicapped but are not living with their families? To give an example, I don't think our friend lives with his family; I think he lives on his own. How does he fit into this program?

**Ms Easton:** He doesn't.

**Ms Thornber:** Not into the SSAH program, no.

**Ms Easton:** He can get supports for other things through APSW workers and advice of friends and things like that, but there is no money to help him live on a daily basis, no.

**Mr Kwinter:** To give an example, and I don't want to personalize this but as I say, he's the one contact and his group is the one contact I have where I live with them literally on a weekly basis. One of his great concerns is that he has a female friend who is also handicapped—he's got to be fortyish or something; I'm not exactly sure of his exact age, but he's in that age group—and he would like to have a so-called normalized life and he feels that there are economies of scale if the two of them got in and lived together. He has found resistance from the bureaucrats who say, "No, you can't do that." To me that doesn't make any sense.

**Ms Thornber:** No, it doesn't to us either, Mr Kwinter. We know lots and lots of people who certainly



do live together or are married. We haven't really encountered that kind of resistance, so perhaps we could delve into it a bit more and see if there could be some assistance.

**Mr Kwinter:** I've heard stories from these people that are just horrendous. Unfortunately, given their problems, I have difficulty in separating what is actually happening from what they think is happening, and that's probably my fault, not theirs. But certainly some of the concerns they've brought to my attention are things that I think there has to be some way of resolving: threats like if they don't comply they're going to take them somewhere and give them electric shock treatments, things of this kind. Whether that's so I don't know, but it's certainly things that have been advanced to me as problems. Have you found any of these kinds of things in your context?

**Ms Thorner:** I think the concept of being readmitted to an institution is always going to be a fear for everyone who has experienced being in an institution. I think it's a given that whenever people with an intellectual disability read in the paper or hear anything about cutbacks at different levels of government, it's their greatest fear that somehow they're going to be forced to go back to a situation they found totally dehumanizing.

We also talked earlier in our presentation about individualized funding, and that's a kind of approach that would help people like your friend. It wouldn't be through special services at home, but it would be through a new program of individualized funding. That person could then take whatever dollars they needed for support and go out and purchase that support wherever they wanted it. It could be from a generic community association or it could be from a community living association or it might be just four hours' support a week that this person might need.

**Mr Carr:** Thank you for your presentation. On page 5 you talk about some of the problems as a result of the budget: reduced hours, the day programs, reduced family support, and you talk about pushing some families beyond their ability to cope. Comparing our services now with, say, a few years ago, do you think the services we are providing now are worse than they were?

**Ms Easton:** I have a daughter who is 23 years old. When she went to nursery school she was picked up at the door and brought home. I was afforded to ride the bus to do volunteer work and so on and so forth and that cost \$15 a month. They did everything they could around physiotherapy, around all kinds of things that enabled my daughter to walk and feel good about herself.

**Mr Carr:** When was this?

**Ms Easton:** Well, 21 years ago. That is no longer available to people. They don't have the transportation. There are a lot of single mothers. If someone needed the support we could always find some way of providing it, but with costs rising, with our belief that people should be out in community day care centres, it's just hard and there's more of an isolationist feeling.

One of the things about our movement is that you hang out together and you feel good about yourself, and that is no longer possible. We have waiting lists for everything.

We have waiting lists to have an intake worker come and visit you to find out what you need.

**Mr Carr:** On page 2 you talk about how financially we'd be better off having people out in the community. One of the problems that you've got, and I think Thistle-town's a perfect example where the parents and workers have been hounding the minister and the Premier, is that they're afraid, in situations where they close down a Thistle-town, the services won't be out there in the community before something gets closed down. Do you have the fear too that the services won't be there? You've been very good on page 2, talking about the costs and how it could be less expensive, even forgetting about the quality of care which should be the most important issue. The parents, I think, of the people of Thistle-town who are out there protesting and literally hounding the Premier and the minister, are concerned that the services won't be there. For somebody like yourself who's been around and seen it, would the services be there for these families right now if in fact Thistle-town gets closed down?

1710

**Ms Easton:** Of course. We don't want anybody to be in the community without the proper supports. One of the luxuries is that institutions and schedule 2s, or whatever Thistle-town is labelled right now, can show you how to do it, how they do it there.

**Mr Carr:** Why are the parents so upset, then?

**Ms Easton:** Because they're afraid. They're afraid because bricks and mortar and being enclosed is very secure to them.

**Mr Carr:** The reason I ask is I'm in a similar situation with Oaklands in our area, right around the corner from where I live, and the parents are in the same situation. They're looking at it, and if they felt as confident as you—and I don't know how we do that, whether the ministry can—

**Ms Easton:** I sat on that board.

**Mr Carr:** Yes. I don't know how we can help those parents, because they're the same as the Thistle-town parents. I know this is a difficult question, but is there anything we can do for the parents?

**Ms Easton:** Of course there is. I believe what we have to do is that 20 or 30 years ago people made a decision based on the best information they had, or even 10 years ago. They were told, "This is what's best for your child," and all that guilt of not being able to cope, all of those things, landed young people and adults in institutions. Now we're saying to them: "We've evolved. We've become more sophisticated in the community around supporting people."

We started, unfortunately, when they started deinstitutionalization, with what was deemed as perhaps the easiest people to support, and they presented certain problems because we didn't know how to do it. We now know how to do it better and we are learning as people come to us. As long as there's good planning and good sharing between staff from institutions and staff from the community, we'll always be able to do it, and that commitment, it might even mean that the people who are working in the institution might come and work for a

local association because they know the person best.

**Mr Carr:** Do you believe that we'll still have to have some people in institutions?

**Ms Easton:** No. Are you asking me personally?

**Mr Carr:** Yes.

**Ms Easton:** No.

**Mr Carr:** Thank you. Good luck: a great job.

**Mrs Haslam:** I couldn't agree with you more. I think individualized funding is an excellent way to look at it. I notice, though, and I would be remiss if I didn't point out, that there's been a \$3-million increase to special services. There's been a \$6-million increase to some of those programs. Where it may not be everything you want, there has been an extensive amount of increase given the fiscal restraints that the ministry and the government overall have. I think I'd be remiss if I didn't remind people that there is additional funding out there that this government has put into, in particular, these issues.

You're now seeking a \$17-million increase in the special services at home. I know that I looked at some of the facts and figures, and families on the waiting list, approximately 835, would require additional expenditures of approximately \$3 million a year; families with reasonable appeals that have been turned down that are listed as possibilities of coming into the program is an additional \$1.1 million a year; and families likely to appeal or have the opportunity to appeal that process could look at an additional \$1.9 million just to meet the minimal estimated need of a program like this.

You talked about changes that are coming from internal reallocations and the restructuring of the developmental services framework. Those are kind of long-term situations where we can look at the framework and find the money in a long-term way for some of the programs that you're looking at having an increase in funding for, but right now we don't have that money. Right now that option isn't here. So we're faced with the idea that we could look at increasing the taxes to put the additional money in right now, or we could look at a more long-term way of doing it internally.

You talk about the decreased costs over long-term savings. Again, where do we find that money for the increased interest rates and the increased debt costs that we're dealing with now? When you take all of those things into consideration, where do we come up with the extra money for a \$52-million program? Would you tell this committee that you feel taxes can go up, the debt can be handled and the money should be put in now? That's my first question. Do you feel that there is ever a need for institutional care? Since we have some out there and the possibility of closing them all and bringing them all into the community is very expensive, do you think there's ever a need for institutional care?

**Ms Easton:** On number two, about institutionalized care, there is no way on God's green earth that I believe that it is cheaper to live in an institution than it is in the community, on the average.

**Mrs Haslam:** I didn't mean just looking at it in the economic way; I meant in a living way. Is there ever a

need for some people to be in institutional care?

**Ms Easton:** No. I think that some people will always need 24-hour support. There are people I know who will never live without that, who are totally incapable, but are very productive people. But they will never be able to make hard decisions. They don't have the verbal skills. I have a friend, and I've told this story before, whose daughter has no speech, but I certainly know when she's angry with me and when she's pleased with me. She is supported on a 24-hour basis—it's one of the luxuries we have in Mississauga—and what happens is, she now works two days a week in a pet shop. Heather has a wicked sense of humour. So she gets to bathe the birds. Squirt, squirt and they go "Awk, awk," and she thinks that's wonderful. She also gets to cuddle all the puppies and kittens when their cages are being cleaned. Do you understand? Her physical limitations are great. She walks, but she was born with arthritis. The pain this child suffers is phenomenal. Well, she's not a child, she's a young woman.

**Mrs Haslam:** You're saying economically that 24-hour care is efficient?

**Ms Easton:** Yes, it is. That she goes two days a week and works in a pet store where people support her is wonderful. My daughter had Harrington rods put in, \$800 a day in the Toronto Western Hospital. I come home to home care. Six weeks in the hospital at \$800 a day, six weeks in bed and longer with \$35 a visit, three times a day, then twice, then once, and we were at home where I could drink out of my own cup and we could watch our own TV and people could sit in our dining room—

**The Chair:** I hate to interject, but if we could get some comment on the first question, because we're going to have to conclude.

**Ms Easton:** Okay. What's the other one? Do you want to do it or do you want me to? Repeat it, please.

**Mrs Haslam:** You're asking for a \$17-million increase. Given all of the issues I've laid out for you, would you be saying to this committee: "We think it's needed. Raise taxes to do it. Forget the debt. Forget the deficit"?

**Ms Thornber:** No, we're saying that we think the money is in the institutions. We think there's money that goes beyond the figures that we see around institutions. We think that there's money that actually is costed through government services that relates to institutions that also could be used to support people in the community. So we think the money is there in the institutions and we need to get people out and get the money out as fast as we can.

**Ms Easton:** And it's preventive.

**The Chair:** I'd like to thank the Ontario Association for Community Living for making its presentation before the committee this afternoon. Thank you very much.

I'd like to remind committee members that tomorrow the committee will be sitting until 5:15, barring any unforeseen problems. Thank you. This committee stands adjourned until 10 am tomorrow morning.

*The committee adjourned at 1719.*



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### **Staff / Personnel:**

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ISSN 1180-4386

**Legislative Assembly  
of Ontario**

Third Intercession, 35th Parliament

**Assemblée législative  
de l'Ontario**

Troisième intercession, 35<sup>e</sup> législature

**Official Report  
of Debates  
(Hansard)**

Tuesday 14 February 1995

**Journal  
des débats  
(Hansard)**

Mardi 14 février 1995

**Standing committee on  
finance and economic affairs**

Pre-budget consultations

**Comité permanent des finances  
et des affaires économiques**

Consultations prébudgétaires



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## ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON  
FINANCE AND ECONOMIC AFFAIRSCOMITÉ PERMANENT DES FINANCES  
ET DES AFFAIRES ÉCONOMIQUES

Tuesday 14 February 1995

Mardi 14 février 1995

*The committee met at 1002 in room 151.*

PRE-BUDGET CONSULTATIONS

ONTARIO TRUCKING ASSOCIATION

**The Chair (Mr Paul R. Johnson):** We continue with our deliberations with respect to pre-budget consultations. The first presentation this morning is by the Ontario Trucking Association. If the representatives would please come forward, make yourselves comfortable. Please identify yourselves for the purposes of Hansard and the committee members. You have 30 minutes within which to make your presentation and field questions from the committee members. Please proceed.

**Mr David Bradley:** Good morning, Chairman and committee members. My name is David Bradley and I'm president of the Ontario Trucking Association. Paul Leader is senior vice-president, Atlas Van Lines, and chairman of the Ontario Trucking Association. Michael Burke is the association's assistant manager of government relations.

It's a pleasure to be here this morning to speak to you. I think the 1995 budget—I say this every year—is one of the most important in our history, but every year they seem to get more important.

We have distributed a brief of what you that provides the details of our submission. I obviously won't go through all of the points, but we'll leave that with you.

The government at least set out, and I think all the parties share this, that a top priority for this budget should be job creation. Of course, job creation requires economic growth, and so our submission focuses on measures that we hope will stimulate growth, both budget measures and non-budget measures. We think we need to have complementary policies in the area of transportation and labour to complement what we hope to see in the budget.

As you know, the situation in the Ontario economy and Ontario industry over the last several years has become very fluid, and of the competitive advantages that we once enjoyed, some have changed, shifted, and some we've lost altogether, and that restructuring of the Ontario economy, while perhaps the pace has slowed down somewhat in the last year or so, is still going on. I think that's really given fiscal policy here in Ontario and monetary policy in Ottawa and in the United States much more of an impact, because they can combine with these changes in our competitive advantage and certainly throw things either into a better light or into a worse light.

The objectives that we think should be set for this budget are as follows.

First, we think the budget should maximize the role of the private sector. If you're interested in job creation, that's where it's going to happen. So some of the measures that we're going to be proposing will contribute to that.

In addition, the fiscal policy measures that this budget will introduce should stimulate economic activity. That does not necessarily mean spending. We would propose, and I think all of the parties have certainly recognized now, that the measures have to be conducted in a fiscally responsible manner, and that the policies work with and encourage the private sector restructuring that's under way to continue and to encourage private sector investment.

To get economic growth leading to job creation, or GDP growth as the economists would look at, you look at three things historically in Canada. One is population growth, another is labour force growth, and the third is maximization of productivity.

Population growth really started to decelerate in the 1950s, and therefore we cannot rely on population growth as we did in the postwar period for economic growth. Similarly, labour force growth over the longer term is slowing in Canada and we can't look to labour force growth. So that leaves productivity as the final area that this economy can look to in order to stimulate growth and therefore stimulate jobs.

Canada has lagged behind the other G-7 countries in terms of our productivity and we have a real job here to do, both in the private sector and in the public sector. We think the social contract is at best a start and the real chips are going to fall, I guess, in about 18 months' time. We're not talking solely of cuts here, but that the public sector, and I'm thinking more of the government as opposed to the broader public sector here, needs to be instilled with the same message of productivity and incentive that exists in the private sector.

In terms of the economy and how we see it, trucking is a leading economic indicator. We are on the front lines. We serve virtually every industry that produces anything in the province, so we can tell you what's happening out there.

Over the course of the last year, we saw a continued firming in economic prospects. We saw the growth becoming more broadly based. However, one has to be very careful. That, for our industry, is not translated, as some people in the media have suggested, into mega-profits. The operating ratio, which is expenses over revenues, for the industry in the first half of 1994 still

was at 0.98, and that doesn't include interest and taxes, so barely break-even. I think in the second half things improved further, and I would suspect we're perhaps in the 0.96, 0.97 operating ratio, still not making a lot of money and most of the money's being plowed back into repairing our balance sheets, which really got ravaged during the recession.

The other thing that I think you have to keep in mind is that most of the growth that we're seeing out there, moving the manufactured goods and the raw materials, is export-driven. The domestic economy still has been lagging behind—the consumer has yet to really fully participate—and we're becoming increasingly concerned about the recent spike-ups in interest rates. I can tell you we haven't seen an impact yet, but the talk of a soft landing in the US leaves us very, very concerned and I think leaves the Ontario economy very exposed, because if we see a slowdown in US economic activity, that's going to drain off growth here. We don't have domestic growth at a level at this point yet to rely upon, so we really have to watch that.

In terms of productivity and efficiency, a concern that we've had over the last decade or so is that the efficiency gains and the productivity gains, in our industry at least, in large part end up being taxed away. So we're very concerned about that.

The tax burden on the trucking industry as a percentage of revenue, if you look at our brief, is 7.9%. When you compare that to industries like manufacturing, it's at about 4.9%, and the insurance industry at 1.3%. So that's quite a disparity. You might say: "Well, that's okay. That's trucking and you've got highways and that kind of thing." But one has to be aware of the burden that that translates on to our export trade. Again, there are charts in there that show that the tax burden on trucking simply makes our products that much less competitive in other markets.

So to start in terms of our specific recommendations for this budget, number one would be no new taxes and no increased taxes. We seem to think that this thinking is permeating all levels of government at this point. However, we will have to see. But there's simply no scope at this point for further tax increases, both from the consumer point of view and from business. Again, we're trying to repair our balance sheets.

Sales tax is another area. Last year we had the report of the Fair Tax Commission, which talked about the taxation of business inputs. The jobs right now in Ontario are being created in the service sector, not so much in the manufacturing sector, yet we still have the situation where there are tax disparities between how business inputs in manufacturing are treated versus business inputs in the service sector.

For instance, manufacturers do not pay the Ontario retail sales tax on their business inputs. We pay on our tractors, our trailers, our tires, and of course, thanks to the 1993 budget, on our auto insurance, our truck insurance and also our warranty repairs, which is taxing us twice. What we think is the best solution to that would be to harmonize the provincial sales tax with the federal sales tax. We know there were some intentions in that

regard from the Minister of Finance last year. Things have become rather quiet. We know you can't control that completely, but that's something we would like to see Ontario continue to pursue.

#### 1010

In the meantime, if you can't bring that to fruition in the short term, which doesn't appear possible, we really think the government's got to take a good, hard look at things like the 5% sales tax on insurance premiums. We're starting to see our premiums escalate now, and this has to do as much with trade as anything else. More and more of our carriers are operating into the States as the trade flows move that way, we have a bigger exposure, and in the litigious society they have in the US, that means our premiums are going up. We're starting to see increases in the order of 10% to 20%, but we're told they could start to reach as high as 40% this year. So that leads to a windfall tax grab for government that we'd like to see addressed.

The tax on warranty and repairs is double taxation. That's factored into the price of a truck when we buy it the first time around. Now we're paying a tax on it too and we don't think that's fair. So we'd like to see those kinds of things addressed.

The next area, and of course it's always of concern to us because it's been an easy area to grab, is fuel tax. There's a chart in there that shows over the last 12 years or so the escalation in fuel tax in Ontario. We're presently sitting third highest in Canada. There's also a comparative chart that shows how we compare to our competitive jurisdictions and we're anywhere from two to three times, in some of those jurisdictions, higher here in Ontario. That's a tax that has no bearing on profitability whatsoever. It really hurts and we'd urge you to not be tempted, once again, to move to that area for revenue. In fact, there's very little scope for revenue gains, I think, in this next budget.

Payroll tax is another area that's left over from the Fair Tax Commission. It was indicated in there that it was a killer of jobs, that labour ends up paying 80% of the payroll tax. Payroll taxes in trucking—we are a labour-intensive industry—can run as high as 70% of the total tax burden. There's information showing that in there. So we'd like to see Ontario seeking less reliance on payroll taxes than what we've seen over the last 10 years or so.

Of course, the mother of all payroll taxes is workers' compensation, perhaps not something that you control directly. However, the government is the lender of last resort and unfortunately Bill 165, in our view, doesn't cut it in terms of trying to wrestle that problem under control. We're particularly concerned there about the decimation that we fear of the NEER program, new experimental experience rating, which has been the one WCB program that has worked.

Finally, on the tax side, there's been discussion recently of environmental taxes. We think we've already got them on the fuel taxes. I won't belabour the point other than to say that we don't think they'll work and, with an economy that's so tied into the midcontinent industrial marketplace, they would have negative impacts on Ontario if we decided to go alone on that one.



One fiscal policy tool that does work—it does lead to increased productivity and efficiency, it does lead to embracing of new technologies, which we're seeing on Highway 407—is the investment in road infrastructure. No economy's going to be competitive unless it has a competitive infrastructure. We think that the government's done a very good job over the last five years in maintaining capital expenditures on the highway program and finding ways to work with industries like ours to get projects like Highway 407 moving at an accelerated pace. We'd like to see that continue.

By the way, if anybody asks, yes, we do believe we pay our fair share of the infrastructure and that some of the numbers you hear in terms of highway damage and what truckers pay are very arbitrary. Highway cost allocation is at best an art and not a science. We'd urge any of you to continue the support of the highway infrastructure.

In our discussions with the Treasurer, and this leads into some of the off-budget measures that we raise in here, a lot of discussion was given to the federal proposals for limiting the standard workweek and the amount of overtime that industries, if these were implemented, would be able to employ. We would urge the government to stay away from those kinds of measures; allow industry the flexibility to manage its workforce. In industries like ours, where we have a driver shortage now and people are on the road, it would be next to impossible and completely impractical for us to be able to manage a situation like that.

Those are my comments. We welcome any questions you might have.

**Mr Monte Kwinter (Wilson Heights):** Thank you for your presentation. I think certainly everybody in the Legislature realizes the importance of the trucking industry to everybody. I always remember the slogan, "If you got it, you got it by truck," and I think that's still true.

One of the things I find a little difficult to deal with in these hearings is that we keep hearing conflicting proposals. To give an example, on page 2 of your presentation you talk about maximized productivity in the private and public sectors and you say "...that leaves productivity growth as the remaining underpinning of Ontario economic growth in the 21st century."

We have had several deputations appear before this committee that have said, given the fact that this year the most optimistic number for Ontario and for Canada is 4% growth, and then they're projecting for the next three years growth in the 3% to 3.5% range, that we cannot grow our way out of this problem, that the interest on the debt is growing faster than the productivity and that the only possible way we can get our finances under control is to reduce that debt, and that the only way we can do that is to reduce expenditures because we can't grow ourselves out of the problem. Your premise is that we can grow ourselves out of the problem. Could you comment on that?

**Mr Bradley:** Obviously one has to have some balance. I don't think it's an either/or. We're in a competitive world now where productivity, growth in the

emerging economies, is outpacing ourselves. Productivity is a full-time job in the private sector. Part of that is that we need to have the capital to invest in new technologies and for innovation, and because of the persistent debt load that all governments are carrying at this point, quite frankly they're squeezing out private sector investment and forcing up interest rates.

That's a concern I have with this latest Ontario savings bond, that there we go again: the government getting in there and offering attractive interest rates and crowding out private industry. So I think, Mr Kwinter, we've got to get the debt under control. But at the same time, if we as an economy don't become more productive, if we as an industry don't become more productive compared to our competition in the US, we're out of business.

**Mr Kwinter:** In another area—you didn't talk about it—what effect is the intermodal transportation system having on your particular industry? Is that seen as a benefit to you or is it creating some problems for you?

**Mr Bradley:** Intermodalism is cooperation between the two modes. If it's a good business decision for truck and rail to work together, they will. We are seeing growth in intermodalism in the order of 8% to 9% a year, and we anticipate that this will continue as the technology becomes better in that regard. But intermodalism will only work if it makes good business sense, not by the invisible hand of government moving in and changing the marketplace.

Intermodalism will continue to grow, but all forecasts show that trucking is still going to grow exponentially greater, so it's not going to replace trucking. You'll see intermodalism flourish if the service can be provided on the very longest hauls. That's where its marketplace really is, but Toronto to Montreal, I don't think so. There's some limited scope for it, but for most shipments in Ontario it'll still be trucking.

**Mr Kwinter:** As a result of NAFTA, have you seen any changes in your patterns? Are you able to carry loads from here to Mexico and is that creating any problems for you?

**Mr Bradley:** We are, in limited senses, now. However, the big change came with the first trade agreement, which caused a shift of freight from east-west to north-south. Our big market is still the United States. There are some carriers from Ontario that are serving Mexico, but it's really not a big part of our business.

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**Mr David Johnson (Don Mills):** Thank you very much for the deputation. I must say I agree with most of what you've said, particularly that we have to be more productive in our society.

Our view is that to be more productive, we would agree that taxes cannot be increased. As a matter of fact, we would say that the taxation burden is too heavy in the province of Ontario. Personal income taxes, for example, in Canada are the highest in all the G-7 countries. Property taxes, which would be a component of your business, something you haven't mentioned, in Canada are the highest in all OECD countries. It demonstrates that our tax burden is very high, and for the private

sector to be competitive—and that's where the jobs should be; that's where the productivity's coming from—it's our view that we need to reduce the personal income tax, reduce the payroll taxes, reduce regulations—you've talked about some regulations here—and certainly address the WCB.

On the WCB, I've noticed from the chart that your experience has been significantly improved—the accident rate is way down in your industry—but the costs continue to escalate. What, in your view, has to be done to tackle the problems of the WCB?

**Mr Bradley:** I think it's simple: We can't continue to look at the revenue side; we have to look at the expenditure side. When you look at the percentage of our premiums, the contribution from the unfunded liability, it's been growing at double-digit over the last several years. I think Ontario has to look at what some other provinces are doing, and that's looking at benefit levels that are still generous, still fair, but are competitive. The unfunded liability's at \$12 billion now. There are forecasts that by the end of the decade it could reach as high as \$52 billion. There's a lot of work that has to be done there and I think we have to recognize that that situation is spiralling out of control right now.

**Mr David Johnson:** Shifting back to taxes, simply maintaining the status quo is not going to work. We have deficits. The Provincial Auditor estimates the deficit this year in the province of Ontario in excess of \$10 billion. That deficit will inevitably become a future tax. It's our view that with the growth we're going to experience, as you've indicated, most of it is export-related, and with the US economy going down, that could suffer. My guess is that if we achieve a 3% growth over the next four or five years, we'll be doing really well. We need to reduce the size of government, in my opinion. We need to reduce expenditures by the provincial government. I wonder if you share that view.

**Mr Bradley:** Obviously, yes, we do.

**Mr David Johnson:** Okay. Shifting to another item, you've talked about limitations on overtime and the workweek. I have the suspicion that any such artificial measurements would be harmful for the economy as a whole, but your industry is one that I suspect would be most hurt by any artificial limitations.

**Mr Bradley:** We have a shortage of qualified drivers now; our industry is running at very near full capacity at the present time. To artificially say we have to bring in other drivers now, if you can tell us where they are, we'd certainly like to find them. The other problem, of course, is that our labour spends a lot of time on the road and can be thousands of miles away from the terminal, and therefore to helicopter somebody in or something like that is impossible.

But the key thing overall, looking at it from a total industrial perspective, is that those kinds of proposals don't create new jobs, they simply redistribute present jobs. There's no real job growth there at all. I think the authors of the study would agree with that too.

**Mr David Johnson:** We share your concern about infrastructure, but our point of view is that it should be

the private sector, that we really need to get the private sector involved in infrastructure. The 407 sort of approach was well intentioned in the first instance, but it became a hybrid whereby government is essentially responsible for the funding. Our view is that projects like that should be focused on the private sector. I wonder if you have a few comments on that.

**Mr Bradley:** Certainly we wouldn't be opposed to that, but I think the Highway 407 approach—well, you say it was well intentioned. I think it very much was well intentioned and a step in the right direction. We certainly have commended the government for moving us in that line or we wouldn't have seen Highway 407 in our lifetime. If we can improve upon it, if there are other significant capital projects like 407 that happen to arise, I'm sure that within the confines of the current transportation capital corporation, if there is a better way, we're certainly not limited from finding that way.

**Mr Kimble Sutherland (Oxford):** You said that if you reduce overtime you don't create new jobs, but we've also heard a lot of groups tell us about reducing expenditures here, and a better distribution of the workweek would, I believe, greatly reduce government expenditures in terms of more people working, fewer people collecting social assistance, more people paying taxes and having money in their pocket to purchase more items.

My question is twofold. First, obviously you don't like the idea of going to a maximum 40-hour workweek. What solutions do you suggest? I know you're here solely on the trucking industry and it's very unique that way, but what's your general approach for government to deal with the overall excessive overtime that is occurring in certain industries? Second, your industry seems to go in these cycles, because it seemed like only two to three years ago there were too many truckers around and now there's this great shortage. Any sense of how we can get a better balance?

**Mr Bradley:** You asked a lot of questions there, and I'll try to deal with all of them. Number one, I think you do have to look at it industry by industry. The automotive sector is distinct from trucking is distinct from financial institutions, so whether we have a general situation of excessive overtime I think is open to some debate.

You're right, we had an overcapacity, as most of the economy had an overcapacity, in the midst of the recession. We'd just come through the advent of deregulation, which threw all kinds of supply into the marketplace, and then the bottom fell out of the economy and took the demand away, so we had an overcapacity. We don't want to find ourselves in that situation again, so we're trying to manage the return to capacity at this point.

But the way to create jobs is economic growth, not through redistribution of jobs. The problem for us is a significant one and it's a complex one in terms of how we're going to resolve it. We are attempting to manage our overtime and the time our employees spend away from home much better than we have in the past. That, we recognize, is part of our problem. It's tough to find people who want to maintain a family and spend two weeks at a time away from home consistently. So what



we're trying to do, through use of satellite technology—where we know exactly, we can match loads better, provide better balance—is to get those people home. We recognize you must have a balance of family and work.

In addition to that, as an industry I think we have to, and the Ontario economy requires that we become more productive, and there are only two ways of doing that in our industry. That's through the number of hours people drive, which are limited and which, as I say, we're trying to control, and the other is through the carrying capacity of our equipment. There are some technologies and vehicles being used in North America that we're not using here and that Ontario should take a look at.

**Mr Robert Frankford (Scarborough East):** In relation to other jurisdictions, particularly the fact that you can get American trucks here and Canadian there and I guess Mexico as well, is there a level playing field as regards deductions? I'm thinking of things like WCB and health insurance. Are Ontario companies too well covered and Americans undercovered, and if so, should we be insisting on some even standards?

**Mr Bradley:** It's a mixed bag. You really have to look at it state by state. Overall, is there a competitive level playing field? Right now I would say, yes, there is, and there are two or three reasons for that. The biggest factor is the correction in the value of the Canadian dollar; at 71 cents it is a big assistance to us. The other factor is that our companies over the last five years have done a really good job of becoming as efficient and productive as they can be under current limitations. With the combination of those, we can compete with the Americans now on price and certainly on service.

But we're an industry that competes on the margin; it's a very, very tight line we walk. US social security and payroll costs can be quite high, and that is a competitive advantage we have in Canada. But things like the sales tax on auto insurance premiums: When that was introduced in 1993, we were told it would be applied to US carriers. Well, it's not, because the Ministry of Finance can't find a way to do it and to enforce it. Those kinds of things put us, if you look at specifics, at a competitive disadvantage which, when you're competing on pennies, can make the difference on a contract.

**Mr Frankford:** As I recall, when you went to Mexico you had to buy insurance at the border. Couldn't we do the same thing here for truck insurance and for health insurance?

**Mr Bradley:** I don't think you want to disrupt the flow of goods across the border. That's what our economy is hinged on right now.

**The Chair:** I'd like to thank the Ontario Trucking Association for making its presentation.

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#### ONTARIO PUBLIC HEALTH ASSOCIATION

**The Chair:** The next presentation is by the Ontario Public Health Association. Please identify yourselves for the committee members and Hansard.

**Mr Rick Edwards:** My name is Rick Edwards, and I'm president of the Ontario Public Health Association.

**Mr Winston Miller:** My name is Winston Miller, and

I'm president-elect of the Ontario Public Health Association.

**Mr Brian Hyndman:** My name is Brian Hyndman, and I'm chair of the public policy and resolutions committee of the Ontario Public Health Association.

**Mr Peter Elson:** My name's Peter Elson, and I'm executive director of OPHA.

**Mr Edwards:** This morning we have a brief to present to you and then we'll be happy to field questions following the presentation.

At OPHA we care about health. I'd like to say first, thank you for providing OPHA with the opportunity to address the committee this morning.

The Ontario Public Health Association represents the voluntary interests of more than 3,000 people who are active in public and community health throughout Ontario. OPHA members are drawn from every community health discipline and location within the province of Ontario, from Windsor to Thunder Bay. They include people from community health centres, public health units, universities and community agencies.

What determines health anyway? You might well ask. Certainly not the per capita number of physicians or hospital beds. There is now substantial evidence that health is significantly determined by income and social factors such as personal support networks, level of education, employment and working conditions. The impact of social and economic policies on the health of Ontarians is a key area of concern to OPHA. OPHA holds the position that a more equitable distribution of the provincial financial resources is needed to ensure that fundamental determinants of health, such as food, shelter, healthy growth and development, employment, education and income, are within reach of everyone.

Of the health services which are designed to maintain and promote health and prevent disease, it is the public and community health sector which is the leader in bringing this policy into reality in communities throughout Ontario.

Considerable attention has already been given to determinants of health by the Premier's Council on Health, Well-Being and Social Justice, and last fall the ministers of Health adopted a population health strategy which explicitly acknowledged the importance of the determinants of health. An example from that reads:

"Nowhere is the impact of the determinants of health more evident than in the health of a child. A study published last year described a preschool enrichment program which was provided in the 1960s to low-income children who were at considerable risk of failing in school. These children are now 27 years of age. Compared to a control group who received no program [these programmed children] had significantly higher earnings, were more likely to own homes, [more likely to have] completed more education, were less likely to have used social services, and had significantly fewer encounters with the law and out-of-wedlock births. The researchers concluded that over the lifetime of the participants, the preschool program returned to the public \$7.16 for each dollar invested."

This is a story which could be told by every health promoter and public health nurse in Ontario. It's a story about making a long-term difference in communities beyond the blaring noise of ambulance sirens and the bright lights of the operating room. It's also a story about methodically monitoring the health and environmental status of communities; it's engaging in participating with communities in family planning, in water safety, injury prevention, and in heart health.

This is accomplished through multidisciplinary teams of health practitioners, including community developers, inspectors, nurses, dentists, epidemiologists, health promoters, nutritionists, physicians and administrators, who are all committed to maintaining and enhancing the health of the community in which they work.

The public health unit model has proven in practice, structure and governance to be the most effective and efficient way to engage whole communities in improving their health and therefore achieving the health goals for Ontario as adopted by the government, in fact.

These health goals are:

- To shift the emphasis to health promotion and disease prevention.

- To foster strong and supportive families and communities.

- To ensure a safe, high-quality physical environment and to increase the number of years of good health for the citizens of Ontario by reducing illness, disability and premature death.

From these, OPHA recommends:

- Strengthen the public understanding about the broad determinants of health. The public still believes that health is what you get inside a hospital.

- Build an understanding about the determinants of health and support for the population health approach among government's partners in sectors which are outside of health. This has been called building healthy public policy.

- Develop comprehensive intersectoral population health initiatives for a few key priorities that have the potential to significantly impact population health.

- Allocate funding in direct relationship to the health goals of Ontario.

Now, what does this have to do with public health per se?

**Mr Miller:** I would like to talk to the members of the committee briefly about public health, more specifically, public health units. Just so you understand what my link is with public health units, I'm currently employed by a health unit in the Metropolitan Toronto area, but I've worked for 27 years in public health. I've worked in rural Ontario as well, Hastings and Prince Edward, Haldimand, Norfolk, as well as here in Metro Toronto.

Public health units have the express mandate in legislation, the Health Protection and Promotion Act, to not only provide health protection but to be the leaders in health promotion and in prevention strategies at the community level in Ontario. It is our job to ensure the existence of conditions in which everyone can live

healthier lives. As I mentioned, we provide strong health promotion and disease prevention. We are probably the only people with the mandate for a long-range plan for the health of the entire community rather than specific clients.

The strategy we have embraced is one of population health. We focus on the factors that enhance the health and wellbeing of the whole population rather than simply focusing on the individual. This way, we're more efficient. We get a bigger bang for our buck, if you will, where we're actually providing an environment where people can live healthier lives rather than simply picking out individuals who seem to be at the highest risk.

Something we have noticed over the years: There has been very little evidence that there's any substantial shift in resources to public health, although we have the mandate to work at the very grass-roots community level.

The Deputy Minister of Health stated in November of last year: "It's also clear that, relatively speaking, we have been investing very little in community and public health. We want to redirect funds to areas that can help prevent disease and promote better health." Well, we've been waiting for four years and we're still waiting. We really haven't seen it.

#### 1040

We've noted a few examples. There's one example in injury prevention. Preventable injuries are the leading cause of death for everyone under age 44. Injuries account for more years of life lost before age 65 than cancer, heart disease and strokes combined and cost Ontario taxpayers in excess of \$4 billion a year. Public and community health workers work to prevent falls by the elderly, promote bicycle helmet use and are active community partners in injury prevention campaigns.

Yet while injury treatment consumes four billion care dollars a year, injury prevention is not even mentioned as a priority by the Ministry of Health. Ontario currently invests less than one half of 1% of cost of injuries in community-based injury prevention initiatives. It's too little, too late. Ontario lacks a comprehensive injury prevention strategy and steps need to be taken to develop one.

In the area of healthy environments, the OPHA, the Ontario branch of the Canadian Institute of Public Health Inspectors and the Association of Supervisors of Public Health Inspectors of Ontario called on the Ministry of Health to fully implement the healthy environments mandatory core program in 1994-95. This program, and we quote from the Ministry of Health, is designed to create in communities across Ontario a "health-supporting environment in which people will be protected from the adverse health consequences of exposure to toxic, hazardous substances and conditions in homes, public places and the workplace."

The Ministry of Health was not prepared to reallocate any existing resources to fund this program, and this is just a symptom of a larger problem that we seem to be experiencing in the area of public health funding.

**Mr Hyndman:** I'd just like to pick up a bit on Winston's comment about the failure of the government



to match its commitment to shifting the emphasis in health care resources to health promotion and disease prevention. Not only has it failed to do that, it's actually much worse.

In spite of the stated commitments to health promotion and disease prevention, the ministry in recent years has actually been reducing the core funding to public health and health promotion activities under the terms of the social contract cutbacks and transfer payments and other expenditure control measures.

Even though the Ministry of Health's own documents, specifically Managing Health Care Resources 1994-95, state that spending for community and public health will increase by 5.3%, that doesn't trickle down to public health units which are the only organizations in the province with the specific mandate to carry out health promotion and public health and disease prevention activities.

Public health units in the province are actually experiencing a 2.5% decrease in funding during the 1994-95 fiscal year, and that, by the way, is the largest decrease of any category within the population health and community services programs funded by the ministry. On top of that, we're coping with the impact of the social contract, which has resulted in an additional 5% decrease.

What is the actual impact of those cutbacks in public health and health promotion? What it means is that public health units throughout the province are laying off staff in response to the social contract restrictions and other cutbacks. It means that there are fewer resources to carry out needle exchange programs, health education around nutrition, physical activity, and fewer resources to help implement community kitchens for low-income mothers. It means fewer resources to carry out the public health and disease prevention and health promotion activities that, over the long run, can be expected to reduce spending in the tertiary care sector.

I'm going to turn you over to Rick, who will deal with some of OPHA's specific recommendations which will help to support and maintain public health and health promotion activities, which in turn can be expected to help enhance and maintain the health of all Ontarians.

**Mr Edwards:** You have those before you in your document, but in conclusion I would say that OPHA, the Ontario Public Health Association, recommends that:

- We increase public understanding of the powerful link between prosperity, income distribution and health.

- We increase public understanding of the important role of education and economic development in fostering health.

- We conduct a standing health-impact analysis of policies by all government ministries.

- We increase coordination of policies which address the broad determinants of health through intersectoral collaboration.

- We use the Health Goals for Ontario as the basis for the allocation of funding within the Ministry of Health.

- We recognize public health as leaders in community educators for determinants of health.

- Recognize public health as leaders in promoting the

health of the whole population and mobilizing public support for community action and healthy public policy, and a tangible way to recognize that leadership will be to redress the inequitable impact in the health sector of across-the-board cuts such as the social contract.

- Continue the existing commitment to healthy communities, including the Ontario Healthy Communities Coalition and the healthy community grants program.

- Increase tobacco taxes and prevent 40,000 young people from premature death before age 70.

- Fully implement the healthy environment mandatory core program.

- Invest 1% of the cost of injuries in injury prevention research and community initiatives.

**Mr David Johnson:** This reminds me of days gone by. I served on a public health unit for many years. I served with Dr Richard Schabas, the medical officer of health for the borough of East York at that time. He was fond of telling me that cigarette smoking was the number one preventable cause of death in East York, and I guess perhaps in the province of Ontario. Is that still true? My suspicion is, though, that smoking has diminished.

**Mr Edwards:** Yes.

**Mr David Johnson:** Another thing that he was not reluctant to tell me, and he may have a slightly different view on it today, is that there were various provincial requirements that were passed along to the municipalities, requirements perhaps pertaining to inspection of restaurants or disease prevention or dental programs or that sort of thing, but the money didn't come with it. Public health units were required to meet certain requirements and to fund them, to find the funding themselves. As a matter of fact, I know within Metropolitan Toronto that as recently as two years ago perhaps the city of Toronto would meet most of the requirements, but the other five municipalities would not meet the requirements. The word "downloading" is a word that comes to mind when one talks about this. I wonder if you could tell me what the state of affairs is today.

**Mr Miller:** I could respond to that. Thanks for your comments. I concur fully with your comments. The truth is that the public health units over the years had taken on a number of responsibilities which in years gone by were the responsibilities of the province. But as you rightly stated, the money didn't come with it. Historically, I'd say over the past at least 30 years or so public health has received funding of slightly less than 2% of the entire health dollars spent in Ontario. That has not changed. That is causing some problems.

You mentioned the fact that the city of Toronto may be close to fully implementing the mandatory core guidelines but the other health units aren't. That is also true. Probably the reason is the lack of resources. As you may or may not know, in the Metropolitan Toronto area the Ministry of Health funds health units to the tune of 40% and the municipality picks up the other 60%—and municipalities are also experiencing some pain at the moment—whereas in other regional health units throughout the province they are funded by the Ministry of Health 75%.

**Mr David Johnson:** I thank you for confirming what certainly was in place a couple of years ago and I gather is still in place today. I think if the ministry feels that a program is important and is prepared to mandate it, then it should be prepared to fund it. Otherwise it's just passing the buck. I have a suspicion that program requirements differ from municipality to municipality to some degree, so perhaps there needs to be flexibility. What needs to be in place in East York may not need to be in place in the city of Toronto or Sault Ste Marie or some other place.

1050

A final question perhaps, if my time runs out, is that throughout here you've used words like "redirect," "reallocate" and "shift." I gather what you're saying, if one can interpret that—I think you've all used that terminology—is that the funds are there somewhere in the system but that they should be taken from somewhere else and redirected, reallocated, shifted to public health. Is that what you're saying? If it's so, where would those moneys come from and what quantities of moneys are we talking about reallocating or shifting?

**Mr Edwards:** In a general sense, there are any number of trees that have been sacrificed to reports which say, over and over again, that there is enough money in the system, that there has been considerable fat in some parts of the system and rather less in other parts. Certainly the institutional sector—hospitals, for instance—is an area that's been pretty generously resourced to this date; public health less so.

In line with the general recommendations, I think you're getting across the country, even these days, a shift from the institutional sector—I mean, it's even stated in the province's health goals, for that matter—to community health. And not just community-based; we'd like to draw a distinction between a community program and a program, for instance, that might be an ICU, an intensive care unit, in somebody's home. That's taking place in somebody's home, but it really is a high-tech treatment kind of approach that we wouldn't see as a community health approach that would address the population as a whole.

**Mr Miller:** If I could just add to that comment, without having any particular numbers, I should say that we have noted that in the recent past we've seen efforts being made by the Minister of Health to contain costs within the health sector, so we have actually seen where the costs are slowly coming down, but then whatever costs are recouped from these savings seem to be leaking out of the system rather than being reallocated within the health care system. That is what we're talking about: Where savings are recouped within the system, then we should be shifting and reallocating to those areas which are currently underfunded.

**Mr Edwards:** There are some models. There is the Windsor example of restructuring the hospital sector. The intent was to shift some of those resources to community health, community support services. My understanding is that it's certainly not a long way down the line. I don't know yet how effective that's been, although there are a variety of feelings on it.

Even with respect to the Metropolitan Toronto District Health Council report about hospital restructuring, it insists that no restructuring should take place until there are the community sector supports, because there's been a shameful legacy of institutional services cut and people basically shoved out the door. The savings take place within a certain boundary, but the costs really have just been externalized to the community sector. They don't show up on a balance sheet necessarily, but they're still suffered, if you will, in the community at large.

**Mr Frankford:** This committee and the government are looking at the bigger picture about the overall expenditures, and of course the comment has been made that the health expenditure nationally is quite high—it's about 9.5% of GDP—and that if we could go to the levels in some other countries, particularly the industrialized European countries, most noticeably Britain, which is six point something and in some ways is better than we have here, certainly in terms of a universal primary care system—could we be doing that?

This has been supported by observations by people like a recent report of Judith Maxwell's. Also Marcel Massé, a federal minister, made that comment early on, though we're not hearing much about that now. It seems to me that the federal Liberals may well be forcing us to reconsider that in any case. Do you have some comments on ways in which we could actually reduce the overall cost, probably with the participation of, or perhaps even a central role to, public health?

**Mr Edwards:** I'd just say we certainly talk about longer-term investments and there being a payoff in the longer term. In terms of reducing costs immediately, I'd say that it's a false economy just to cut, for instance. Certainly—you draw a comparison to Great Britain—I'd say that given part of the environment these days of privatizing services to gain efficiencies, well, they say those dollars will disappear perhaps from the public book, but the United States and its private system is notorious for spending more total dollars on the care with less bang than any publicly administered service.

**Mr Frankford:** It's the best example of privatization increasing costs. One just has to look at the US. It's totally simplistic to suggest that privatization has an automatic social benefit.

**Mr Wayne Lessard (Windsor-Walkerville):** I was interested in the remarks that you made, because my wife is a public health inspector in the Windsor area and I know that one of the things she has told me is that some of the problems they experience are sometimes the result of deficiency of the administration and the autonomy of the local decision-making process and not strictly the funding from the provincial government.

I know one area that there were funds that were allocated to public health units was the anti-smoking strategy and I would hope that you would agree with that. In one of your recommendations, you mention increasing tobacco taxes to prevent young people from smoking. Earlier, we had representatives from the distillers' association who explained to us the problems with smuggling and the fact that cigarette smuggling decreased but alcohol smuggling increased, and that increasing taxes at



the provincial level might actually decrease the revenues that we have available to spend on increasing people's level of health and really wouldn't reduce people from smoking. So I wondered if you had any comments about the approach of just increasing taxes to reduce smoking.

**Mr Elson:** There's absolutely no question that the consumption of cigarettes by young people is incredibly price-sensitive and, as we like to say, if we can keep a person from starting to smoke before the age of 20, then in a sense we have them for life, as it were. So I think within that particular population of young people and accessibility to cigarettes that in fact taxes as a price deterrent are extremely important, because it is an addictive behaviour that will affect their health over the long term.

**Mr Lessard:** It seems there were always lots of cigarettes that were cheap from Detroit that could be available in Windsor, so I didn't think that was the case.

**Mrs Elinor Caplan (Oriole):** Thank you very much for an excellent presentation. I think it's really important that we talk about what results we want from the expenditure of dollars, not only in the public system of medicare but also those dollars that are being spent on health services outside of the global government budgets.

I think Dr Frankford's comments were very significant in the discussion of this committee, because when you look at percentage of gross domestic product or per capita expenditure, it doesn't matter whose budget it comes out of—a dollar is a dollar is a dollar. So pushing expenditure from the public medicare budget to the private sector is contrary to good health policy, since you just lose any ability to measure the outcomes of those expenditures and increase what I believe is an important goal of all health expenditure, and that is, improve the health status of your population by having the ability to monitor the effect of it.

I've been concerned, because one of the policies of this government has been to delist and to deinsure and to push money from the government expenditure to the private sector. I think that's contrary to good public policy. As you know, I very much support the goals that you've restated here at committee. I think they could be said in a way that's quite simple for people to understand. I think that everybody believes that the most important thing about medicare and our commitment to health care is that they should be able to have the care they need when they need it. We have to be able to give them that assurance and I think you'd agree that's what the public is concerned about.

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The second goal I think is that people want to know that the dollars we're spending are going to improve the health status of our population, so health promotion and disease prevention become extremely important.

Yesterday we had the Ontario Medical Association here and there were comments that were reported in today's newspaper that I'd like your comments on, whether you agree with them, since you're calling for a further reallocation from the illness treatment. One comment was, "The medical profession is not confident

that the province can maintain the level and quality of care required to meet patient needs." Is that your view? You're doctors as well. Do you agree with the Ontario Medical Association in that assessment?

**Mr Hyndman:** I don't know if we're all doctors as well; I know I'm not. I don't really see why having four teaching hospitals on University Avenue is necessary to maintain the current level and quality of care. I don't necessarily see why the last OMA agreement which gave doctors a fee-for-service billing increase that was twice the rate of inflation was necessary to maintain quality of care. Our main argument today: We fully support universal and accessible medicare, but we would like to see more of a reallocation of funds towards the preventive services, towards the health promotion and disease prevention services which will ultimately reduce demand for tertiary care. That benefits the OMA and the hospital sector as well, because that enables them to spend their resources to maintain a higher quality of care level for all the clients of Ontario's health care system.

What's especially discouraging for us, as we mentioned earlier, is that not only has the government failed to back its commitment to health promotion and disease prevention, but we've been getting cut. They could say that they're treating everyone equitably in the interest of fairness, that we are victims of the same across-the-board cutbacks as everyone else, but remember that before those cutbacks started we only had 2% of the total health care budget, which as David Johnson pointed out did not enable us to meet our mandatory core programs at that time. Since then it's only got worse. It's like putting an obese person on a diet and putting a malnourished person on a diet. The obese person gets leaner and meaner, but the malnourished person could wind up starving to death.

**Mr Edwards:** Let me just say that the quality of care issue is complicated conceptually as well, in terms of acute care practice, even knowing what a quality intervention is. It's something that I think has only really been tackled within the last five, maybe 10 years. We have, in a variety of places, standards of practice; whether in fact those are the best practices to deliver on an outcome is a real, shall we say, can of worms.

I appreciate the rhetorical device of saying quality of care will suffer, but there are, if you will, issues prior to that: What do we mean by quality of care? What is the best care for a particular item? I'll suggest that in the context of that we have the argument between primary care physicians and nurse practitioners, and some people will argue that nurse practitioners will give a poorer quality of care. Well, what's your evidence for that? And so on and so forth.

**The Chair:** I thank the Ontario Public Health Association for its presentation this morning.

RETAIL COUNCIL OF CANADA

**The Chair:** The next presentation is by the Retail Council of Canada and I understand that Mr Peter Woolford, vice-president of policy, is here singularly today to make this presentation.

**Mr Peter Woolford:** First of all, obviously, my apologies on behalf of my two associates who were to be

here this morning. You were just talking about health care. Two of my associates have been affected by winter diseases, so they are not with us this morning and they send their regrets. I'm sure they would much rather be here than on their beds of pain.

I am vice-president of policy with Retail Council of Canada. I'm here to represent the interests of store-type merchants. We appreciate this opportunity very much, of course, to come and meet with the Legislature's committee. This is becoming an annual event for both you and for us. We find it stimulating and useful and an opportunity to focus our thoughts, and we hope to focus yours as well.

I'd like to outline the experience we feel we have been through in the last year, 1994, a bit of a look at what we expect will happen in 1995, and then address a number of the issues of concern to the retail trade.

A brief word about Retail Council: Our direct members are representative of the full range of retailers. Every sector of retailing is represented within Retail Council, and together our members account for something over two thirds of the range, the store volume, of sales made by merchants in Ontario. Other sectoral and regional associations affiliated with Retail Council account for an additional volume. We also have a close working relationship, affiliation, with the Canadian Council of Grocery Distributors, and they represent all of the major wholesale and retail food distributors. The CCGD supports the views addressed in our submission today.

I'd like to take a couple of minutes to talk about the economic review and our outlook, and then I'll switch to public policy issues.

We saw in 1994 a continuation of the gradual improvement in market conditions that began in 1993. Consumer confidence has continued to rise and the pattern of increasing sales has gradually spread to most sectors of the trade. That's a change from the previous year. We saw some recovery of growth in 1993, but in 1994 pretty well all of the retail trades started to report an improvement in their pattern of sales. That's a sign of the gradual broadening of the recovery and the ensuing growth in activity above the previous high of 1989.

One worrisome signal is the greater Toronto area. The GTA has continued to show relative weakness compared to other parts of the province, something that we have seen since the recession. Our members indicate that while sales are growing in the Toronto area, they are growing at a slower rate than elsewhere in the province.

We expect this pattern of modest but steady improvement to continue into 1995. The principal constraints we see being on consumers' spending intentions are lingering apprehensions about job security and continued weak growth in personal incomes.

The economy has been growing now for over four years, and that is increasing the likelihood that this upturn in the economic cycle will end sooner rather than later. Obviously, the timing and depth of the next downturn will depend greatly on the success of the US Federal Reserve's board in moderating the rate of growth in that country without stopping it, but we anticipate that the

Ontario economy will experience a slowdown around the start of the next provincial fiscal year at the latest. It may happen even sooner than that. I'd like to come back to that point a little later on, because it has enormous implications for Ontario's public finances.

Retailers continue to feel intense competitive pressures. The substantial decline in the Canadian dollar—think about it. Just a couple of years ago it was 89 cents to the US dollar. It's now down at 71 and change. That has meant that the cost to the retailer of many consumer goods has risen, but prices have stayed the same or fallen in Canada. Retailers and their suppliers have accomplished this through vigorous efforts to reduce operating expenses and improve efficiencies.

Under the pressure of slow sales growth, we've also seen significant shifts in market share among store types and among individual companies within sectors, and we expect this to continue. The traditional formats of shopping malls, large department stores, some types of specialty retailer, are losing market share to new concepts and new competitors: the so-called big-box retailers, catalogue shopping, electronic shopping, outlet or specialty malls, manufacturers' outlets, specialty merchandisers. All of these are presenting new structural challenges to the trade.

One result of this is that the trade has moved to an era in which margins are lower than in the past. That's quite an important point for public policymakers to realize, because it has implications for future employment growth in the retail trade. With employee remuneration, benefits and related taxes being a major part of non-merchandise costs—in other words, the major part of the costs that must be paid by those margins—it is likely that the trade will generate fewer jobs than it has in past periods of economic growth. Typically, we've seen that when the economy started to recover, the jobs in the retail trade popped up quite quickly as well. We don't expect that is likely to happen this time around, nor into the future, and it's because the trade has simply had to get a lot meaner and leaner in its operations.

#### 1110

I'd like to turn now to some of the principal policy issues that we would provide advice on. First of all, the standard refrain from the business community on expenditure reductions: The Minister of Finance has promised not to raise taxes this year, but we fear that simply leaving Ontario at the status quo is not going to be sufficient to alleviate the financial problems of the province.

As you will recall, I talked earlier in my remarks about Ontario facing the likelihood of a downturn in the economic cycle before the next fiscal planning period starts. This means that according to the government's current fiscal forecast, Ontario would enter into a downturn next year with a provincial deficit sitting around \$6 billion.

First of all, of course, this would mean that the government's efforts at expenditure control will have come to naught. Secondly, it means that the next government, one of the three parties in this room, is going to have to struggle with a very substantial revenue shortfall, precise-



ly at the moment when the demands on revenues will be greater and revenues themselves will be going soft. In our view, it is essential that there be greater efforts to reduce spending this year, while the economy is still growing. Otherwise, Ontario and the government that runs it next year will find itself in very difficult circumstances indeed.

Increased taxation has played an important role in causing the slower growth of the domestic economy, primarily because it has undercut the growth of personal incomes. Again, this is an important signal for whichever party forms the next government, because we feel that the tax policy the current government has followed, primarily trying to raise revenues to meet its expenditure line, has caused some of the slow-growth problems we face today. The weakness of personal incomes has vitiated the economic recovery, has constrained job creation and has generally made Canadians more fearful of their economic prospects.

A second effect that we're starting to see is that Canadians have continued to search for ways to overcome this problem. Canadians are smart shoppers, they're rational economic beings, and so they have gone where they feel they can find bargains. Frequently, this has been to the underground economy of contraband tobacco and alcohol, barter arrangements, cash deals and, even still, some tactical cross-border shopping or cross-border smuggling. Naturally, these responses harm the revenues of legitimate merchants that we represent at Retail Council, and of course the revenues of governments.

Just on one specific item which came up in the discussion with the previous presenters, there have been some public suggestions recently that governments reduced tobacco taxes by too much last year and that there's room to raise the levy on tobacco again. Our members who sell tobacco remain concerned that the illegal pipeline for smuggled goods is still in place and that any significant increase in prices would quickly send customers back there.

I'd like to talk a little bit now about consumption tax harmonization. Retail Council was a leader of a very large industry coalition last year and continuing into this year, supporting the efforts of federal and provincial governments to integrate the GST with provincial taxes. We still believe this is a rational policy to follow and one that is urgently needed, and we certainly hope the two governments, Ontario and the federal government, will continue to work towards an agreement.

A major reason for our support of the integration of the two consumption tax systems is that it promises to lower the cost and administrative burden of administering the taxes, both for governments and for taxpayers. We feel this remains an important and valid objective. Indeed, we believe the cost to firms of administering tax collection systems for governments is a significant drag on their cost competitiveness, and it's one that is entirely within government's ability to improve.

We also feel that the government has a powerful incentive to integrate its consumption taxes with the GST. The retail sales tax has a couple of inherent flaws which make it basically an unattractive instrument for governments to use in these modern conditions.

First of all, it is levied on many business inputs. As I think most members here are aware, this causes a loss of business, investment and jobs. Secondly, as the retail sales tax is extended to sales of services, it becomes increasingly difficult to distinguish between sales to individuals and sales to businesses. Of course, this exacerbates the problem of the taxation of business inputs, but it also provides opportunities for tax avoidance and for a great deal of confusion.

My sense is that the retail sales tax is an instrument that made sense in past years when governments were dealing with relatively simple consumption economies based primarily on commodities and goods. As we move increasingly to a tertiary economy, this instrument is simply out of touch with the modern needs that we're facing today.

In October, the Minister of Finance for Ontario proposed an alternative under which provinces would vacate the consumption tax field in return for greater tax room on the personal income tax. It's a little difficult for us to comment on this because the government has not yet released any detailed papers in the area, but we see one principal weakness with this as a national association, that while this kind of arrangement would work well for Ontario where the revenues for each percentage point of personal income tax is relatively high, it would be extremely difficult for the slower-growth and smaller provinces of Canada.

In their cases, they would have to raise personal income tax levels up to truly confiscatory levels in order to replace the taxes they're currently getting under the sales tax. I know that from some consultations Retail Council of Canada undertook with provincial governments in the Atlantic provinces recently, they feel they simply could not move to that kind of model because of the damage it would do to their income tax systems and indeed to their provincial economies.

We do recognize that the best resolution of the inefficiencies on the consumption tax side might well be through a broader reallocation of federal and provincial taxing authorities and expenditure authorities. My understanding is that Mr Laughren is today probably talking about that even as we're here. We would oppose any reallocation which increases the overall tax burden or a reallocation which trades tax integration in the consumption tax area for less harmony in another area, such as income tax. Finally, we would note as a key principle that the Canadian business community already has sunk a huge investment in the current tax system and the current way of administering it, and governments should be very cautious about changing that without good reason.

I'd like to talk a little bit about the impact of government policies on business decisions. Again, it's an opportunity to step back from the annual cycle and think a little bit about where we're going in public finance terms. For many years, the business community has stressed to governments its concerns about the effect of policy on firms' investment decisions. At Retail Council of Canada, we're becoming increasingly concerned that growing regulatory encroachment and the search for new tax revenues is having a dysfunctional effect on the em-

ployment relationship. I know I've talked to researchers from all three parties who say, "But the employment relationship is one where we can get hold of money; we can get hold of transactions and we can tax it."

My sense is that both employees and employers are starting to develop new relationships which are focused on avoiding the impact of government. Initially, it was employers who resorted to different forms of employment in order to avoid costs associated with measures such as rising minimum wages, rising CPP and UI premiums, rising workers' comp rates, pay equity, new and rising payroll taxes, new and expensive health and safety training requirements and on and on. So the employers acted rationally in that case, but we're starting to see that the employees too are trying to protect their disposable real income. Many of our members report widespread resentment among their employees about the impact, on their paycheques, of government-mandated deductions at source.

The second example is what's happening with benefits. I'm aware that the debate around the taxation of benefits is at the federal level, but members should recall that the current government here in Ontario taxed employee benefits last year when it levied a sales tax on insurance. There are a number of reasons why benefits have been popular with employers and employees, but two important factors are the cost advantage of group buying and the non-taxable nature of those benefits. Some of our members are starting to see resistance to participation in benefit programs because employees are more interested in the level of their take-home pay. We're getting quite concerned that if governments see this as another area to gather revenue, we will experience widespread demands for employees to leave the benefit programs and retain the money as wages. This could well threaten the viability of employee benefits as we have them today.

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A couple of relatively technical issues but ones which we feel should be drawn to the committee's attention:

First of all, the harmonization of payroll and capital taxes has been an ongoing spat between the feds and the provinces for some years. We're relieved that the federal government has decided to allow payroll and capital taxes to be deductible against a firm's liability for federal corporate taxes for another year, but Canadian business—we can't go on this way, let's put it that way. We must resolve this squabbling and we need to resolve it soon. Obviously, on the basis of my remarks, our strong preference would be for us to remove these taxes in their entirety because we feel they're flawed instruments.

A second technical but important issue specifically for the retail trade is the tax treatment of coupons. It has been a source of considerable consumer irritation and needless administrative burden. Coupons offered by a retailer are construed to be a reduction in the price of the product and therefore the sales tax is levied on the lower price, but if the manufacturer offers a coupon, it's considered to be a cash contribution to the consumer and the tax is levied on the full price of the product.

Try having a 16-year-old sales clerk explain that to a customer. This is administratively burdensome, it leaves

the store staff confused and frankly it leaves the customer very suspicious that they're being ripped off by somebody. They're not sure who, but they suspect it's the person they're looking in the eye.

We would strongly recommend that the government treat all coupons as a reduction in price. This comes, we feel, with a small cost to the government but one that would make consumer transactions much more consumer-friendly, if you will, and much more easy for them to understand.

Those are my opening remarks. I'd be glad to take any questions from the committee now.

**The Chair:** Thank you very much, Mr Woolford. We have about three minutes plus per caucus and we'll start with Ms Haslam.

**Mrs Karen Haslam (Perth):** In all fairness, they think that I'm going to take the full three minutes, but I'm going to just say a couple of quick things. So in all fairness, don't you take up the full three minutes. Then my partner here will have a chance and I won't get blamed for it.

First of all, I think that idea of the treatment of coupons is an excellent suggestion. I always like to see companies come forward with suggestions and not just say, "We're the hardest hit; please increase your money to us," which is often the way committees hear things.

I wanted to ask you about something. In your conclusion in your report, you talk about mismanagement of tax dollars, more citizens think that the public sector is excessive and you want us to deliver needed public services within financial means. What are the needed public services that you feel we can deliver within our financial means? In other words, if \$6 billion is the deficit, what would you cut?

**Mr Woolford:** You want me to do that in one minute?

**Mrs Haslam:** Less than a minute, because Mr Jamison has a question too.

**Mr Woolford:** Let me identify a couple quickly. We feel that a great deal of provincial spending in the area of support to industry could be cut. First and foremost, any group that comes before you should be prepared to gore its own ox. We would in the strongest possible terms urge the government to reduce the spending that it is making in the area of industry support, regional development, that sort of thing. More than anything, that is an area where the normal forces of the marketplace can be left to operate and should be left to operate. Subsidizing firms, industries, is just not the way to go.

Secondly, very quickly, we feel that in the health care area, one of the ways the government could move would be to reduce demand by putting in user fees. We have been on the record supporting that now for five years.

**The Chair:** Mr Jamison, seven seconds.

**Mr Norm Jamison (Norfolk):** Seven seconds? Okay. I just want to ask you a question. As a government over the last three years, if we hadn't taken the measures that we have taken, our deficit figure this year would have been approximately \$9 billion higher. So we're talking about your concern that we may be headed into another



recessional period within a year to start. Again, it really concerns me, the depth of the cuts. What you've described here as far as cutting so far is minimal when you look at the figure. I'd really like you to say what you're really saying here, that is, what cuts would have to be made?

**Mr Woolford:** I'm not in a position to give you hard suggestions. That's part of the responsibility of governing. We've given you a couple of suggestions. I would think that another area the government could look at could well be in the area of post-secondary education, where all of the economic evidence indicates that principally the returns flow to the individual. They should look at that as an investment in their futures. So there is a variety of instruments that could be used there to reduce expenditures. Frankly, those are the two major areas for the government: education and health. I've given you some thoughts in there and then the investment of moneys in the private sector. Those are our thoughts off the top of our heads that I can offer you at this time.

All I can point out is that if we do not do that—in fact, if we had not been as generous, to use a word I think you'd be comfortable with, in previous years, we would be in much better shape going into this recession and governments would be in a much better position to help people when they need it. But this government's legacy will be that the next government is going to face a downturn with its hands tied behind its back because its deficit will already be at a level that is crushing and a substantial portion of money will be going out in debt service instead of going to serving people.

**Mrs Caplan:** I just want to make a statement, and I would hope that your members would look at the research. You mentioned your support for user fees in health care because you think it would lower expenditures. Every study on user fees shows that it does not lower overall expenditure in health care. It does not stop inappropriate use. All it does is destroy the medicare system as we know it and lead us to the Americanization of health care, which actually increases the cost and it ends up that it's business that pays those increased costs. So I'd ask your council to actually look at the research that has been done and to stop advocating for something that's not in business's interest.

**Mr Gerry Phillips (Scarborough-Agincourt):** I think that was just a comment.

**Mrs Caplan:** Yes. There was no—

*Interjection.*

**Mrs Caplan:** Will you have a committee to look at that?

**Mr Phillips:** Oh, you promised that I would have the first question.

**Mrs Caplan:** Go ahead. I just get passionate about the discussion on user fees.

**Mr Phillips:** I appreciate that.

**The Chair:** Mr Phillips, expeditiously carry on.

**Mr Phillips:** Thank you. Let me start by saying the parts that we very much agree with. I don't think there's any doubt at all that we're at the end of the rope on taxes federally, provincially, municipally. We agree 100% with

that. In fact we do think there's an opportunity to look at a program to begin, on a rational basis, modest tax reductions.

I think the second is there is no doubt all of us are facing extreme expenditure controls over the life of our political careers and I don't think that has anything to do with political stripe, that's just reality. We are very supportive of your recommendations there. I very much appreciate that you've recommended taking a good, hard look first at your own industry, at the business side, and looking at reductions in grants and what not to business, and we agree with that as well. I wanted to get that clearly on the record. I don't think anybody should underestimate the fiscal problems we're into, and I think you also make a good point that it is unrealistic to expect significant growth to continue forever.

My question, though, is on the tax expenditure side. That's what the jargon is, but it is various tax advantage programs that have been put into place over the years—normally for good reason—to assist business. I think there's about \$4 billion worth of tax expenditure—the jargon is “tax breaks,” but it's more tax expenditures—in the province of Ontario to business. Is there anything in that area that we should be looking at that may have outlived its usefulness?

**Mr Woolford:** That's an area that we didn't look at, frankly, because the retail trade gets very little in the way of tax expenditure benefits. They have tended to go towards forms of investment that the government wants to see attracted to the province, so we've seen a variety of fast write-offs for processing and manufacturing machinery, for research and development, for that kind of activity. The retail trade traditionally has not qualified for that, so in a sense it's invisible to us.

It would be easy and perhaps popular for me just to say, well, obviously you can cut it all. I think, frankly, my members would like to see all sectors of industry treated fairly and equally and, if expenditures are such that governments must reduce them, then perhaps it's necessary for the support provided to other sectors to be brought down to the level of treatment that the retail trade has today.

I recognize that things like research and development are an investment in the future, but in fact research and development is an investment that should pay off for the firm and it should be doing it on a rational basis. Things like training are items that the company should be doing on a rational basis for its own future benefit, and that as well is an area perhaps where government should be re-examining its priorities and making some very hard choices. We cannot continue to pay people to do the right thing, and perhaps we might be surprised by finding that by withdrawing from some of these areas, people actually do the right thing.

1130

**Mr Gary Carr (Oakville South):** Thank you very much, Peter, for a fine presentation as usual. On page 13 you say employers and employees believe the government mismanaged. As you know, we've listed \$6 billion in cuts in our program. You can go through there, get out your calculator, we've itemized some \$6 billion.

We also believe, as you say on page 13, the amount of money that the public citizens provide is excessive. We're one of the highest-taxed provinces in Canada, one of the highest-taxed jurisdictions in North America. We've called for a major cut in taxes, a \$4-billion tax break. For somebody making \$50,000, they get about \$4,000 back. The spending cuts are 33% higher, but the \$4 billion is going to be, in our estimation, the biggest job-creating tax cut in the history of this province, and we believe that will obviously improve consumer confidence and spending.

What will \$4 billion going back in the hands of consumers in this province, if we form the government, mean to your Retail Council members and employees?

**Mr Woolford:** I think the first thing I would have to say is that that \$4-billion tax cut should come after the \$4 billion in expenditure cuts.

**Mr Carr:** It's \$6 billion in expenditure.

**Mr Woolford:** It's \$6 billion in expenditure cuts?

**Mr Carr:** Yes, 33% higher.

**Mr Woolford:** We have seen now a number of other provinces which traditionally have been weak sisters in Canada or viewed as such, Newfoundland, New Brunswick, Saskatchewan, in fact bring their public finances under control. One of them is governed by a social democratic party, two by Liberal parties, and they have actually got to the point where they're looking at bringing their budgets into balance and they're actually starting to pay down some of their accumulated liabilities.

So the first step obviously is that the government must get its budget down, its budget relationships down, at least to a net zero balance, if not a surplus, so that debt does not continue growing. If at that point then the accumulated debt is being retired, that's the time to start putting in tax cuts. My members would love to see a tax cut, yes, but they are very concerned that we see the government get its finances under control first.

**Mr Carr:** In terms of the program we've outlined, we agree 100%, and that's why the spending cuts are listed item by item, and as I told you, they're 33% higher.

One of the problems on the tax side that we've got, as you know, is that versus Alberta our tax rate is 30% higher. They don't have a provincial sales tax as well.

**Mr Woolford:** I didn't mention Alberta. I mentioned Saskatchewan, New Brunswick and Newfoundland.

**Mr Carr:** Yes. I'm talking on the tax side of it.

**Mr Woolford:** Their tax levels are much, much higher than Ontario's.

**Mr Carr:** Yes, and one of the reasons we have is that in the competitive jurisdictions, as you know, it can be done. It has been done in other jurisdictions. New Jersey has done it. They've instituted the tax cuts, but the spending cuts have to be there. We agree with it.

One quick question, though, on some of the other things that we've talked about: We put together a small business task force report on creating jobs where we worked with you in things like WCB and regulations and so on. If you were to say there was one thing that the provincial government can do, other than getting its fiscal

house in order, talking about regulations, workers' comp, Bill 40, all the different things out there, if there's one thing this government can do in the budget coming up to help your sector, what would it be?

**Mr Woolford:** Clearly it has to be to get the government's finances in order. That is job one, and it's such an enormous job that it's hard to see what else would come next to it.

I would think the second most important item would be to clearly come out in favour of harmonization of federal and provincial consumption taxes. That's to a certain degree special pleading, if you will, because it is probably of greatest importance to the retail trade, but our sense is that it is also a key element in getting the mix and the structure of taxes set properly. So if we had to suggest a second piece, it would be that the government move on harmonization of those taxes.

**The Chair:** I thank the Retail Council of Canada for its presentation before the committee this morning.

#### TELECOMMUNICATIONS RESEARCH INSTITUTE OF ONTARIO

**The Chair:** Next is the Telecommunications Research Institute of Ontario, Mr Peter Leach, president.

**Mr Peter Leach:** I thank you all very much for having this opportunity to come and present to you. I assume that most of you are aware of the Ontario centres, but I will just give you my credentials because I tend to come from a community which is small in its own right but tries to link together large groups of people.

Firstly, I'm the leader of one of Ontario's seven centres of excellence. The seven centres are your centres. They're funded by the Ontario government, not exclusively but in the majority. They are instruments of change for the province. We are trying to do some things that are very novel in terms of finding ways of developing and bringing together our entire intellectual resources in this province to generate wealth and jobs for the people of Ontario. It is clearly a partnership between industry and academe.

Its focus originally was the quality and excellence of research and the relevance of research, but more recently that's been turned into a requirement on us to demonstrate our ability to generate wealth within the province. It is also clearly part of the government's strategy and government policy implementation, and I will come back to some of those issues as we go through. So we're sort of lobbying you in the context of people trying to work for you in terms of the implementation of your own policies and strategies.

I'm going and try to make two substantial points during my presentation. The first of those points is the stability of research and development investment. Research and development, as the previous speaker indicated, is a long-term investment strategy. It's a strategy which leads to economic growth and it's a strategy which leads to international competitiveness. Without that long-term strategy, then our ability to compete in the high value added industries that are knowledge-based would, I think, severely decline. However, we can no longer afford to go ahead with just interest-driven research out of the aca-



demic community. That is something which would be very nice to have but unfortunately, in the current circumstances, is no longer reasonable.

Therefore, we have to have industrially directed research, and most of the research which goes on in the academic community, in our view, should be directed by the people who are the recipients of the benefits of that research and development, so it should be focused accordingly. Our premise is that it should be directed at high value added businesses, and the focus of those high value added businesses is to create the ideas, the technology and the knowledge through that relevant research which will result in significant improvement in our economic wellbeing. I'm going to use a couple of examples here to demonstrate the capacity and power of this particular strategy.

When, going back many years, Northern Electric and Bell were part of the AT&T group there was a need to separate them. The impact of that separation has been, together with the ability of the federal laboratories, to generate an international mammoth, one of the five big telecommunications companies in the world. That in itself is a significant achievement on behalf of Canada, and that achievement is based on research and development. If you look at Northern Telecom, the entire product portfolio is Canadian innovation and it has been brought about by us importing research and development skills from foreign countries. A certain amount of it's been generated from inside, but I am one of the people who was brought over from the UK to join that group and I think we've demonstrated significant success.

But out of that have also come Mitel, Newbridge, Corel, SR Telecom and a number of other organizations. If we look at the research and development strategy, we can also look at the implications in Bombardier and some of the other very significant growth companies in this country that have been able to benefit from the adoption of that strategy. That comes from long-term activity.

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The second point I would like to make is very clear in my mind. It is that we must have balanced support right through the innovation cycle. If you find that it's inappropriate to fund activities in any step of that process, you're going to destroy the integrity of the process. So if you want to penetrate one piece, you must take the whole segment down in step, not just tug at one particular element; otherwise you're going to lead to very serious inefficiencies.

Those inefficiencies have been seen in a number of circumstances where ideas that have been generated in Canada have been moved out of the country because we didn't have the wherewithal, the skill or the expertise to commercialize them. Examples in biotechnology I think are relevant. Examples in laser technology have also been demonstrated where our companies have found themselves as world-class companies and have then been acquired and taken over by foreign multinationals, and as we've gone through that process, we've lost the direction and the ability to generate significant growth in this country.

However, we do have some very clear indications of

balanced support, the fact that we have people like Alias software and SoftImage. Granted they have recently been taken over by foreign multinationals, but they are very clearly in the leadership position in their particular fields, and providing we sustain that, we'll be in a good position. Corel is another example of that type of capability, as well as Magna International and some other companies.

The third part in terms of the stability of research and development investment is our access to international research. It's very clear that we can't do it all alone in Canada. We're too small. The growth of research, the growth of world knowledge, is quite remarkable. There are statements that the amount of knowledge that's been generated in the last 10 years is equivalent to the amount that's been generated in the previous 100. Therefore, we need to trade internationally in research and development to remain competitive. That means we need to trade with the US, Europe and Japan.

In addition to that, we also have the opportunity of preparing ground for commercialization in places like China, Russia, Southeast Asia and South America. I think it is the coupling of the research community which allows us to get in the door, because in a lot of countries that are highly influenced by a centralized government, our ability to influence their government can be directly affected by our ability to influence their research and development.

The third point I would like to make in terms of research and development I think is a clear one and that is that we must have strategically directed research. There are certainly government sponsorship limitations in terms of the broad-brush approach we've had in the past, and that is no longer tenable. We already have developed a sectoral strategy. This government I think has done a very significant job in understanding the sectoral requirements and we already have infrastructure in place to be able to support those activities.

I see a significant opportunity to integrate those far more rationally than they've been integrated before. We have the centres of excellence, we have government funding of the universities for research and we have sponsored research programs coming out of the Ministry of Education and Training, all of which need to be targeted together as opposed to targeted separately. They all have different agendas and they shouldn't have. Interestingly, we have a number of research activities under the centres of excellence funding which are clearly directed at the biggest wealth generators in the country.

As part of strategically directed research and development, I think the government itself, as stated in its telecommunications strategy, among the other strategies that have been developed, should become a model user. I think it's very important that you should become a model user, because I believe it is one of the areas in which you can improve the quality of service while decreasing the cost of operation.

Efficiency in education right from the university sector: There is no justification in my mind any longer to have every university with every set of skills. Therefore, we should develop islands of specialization in those univer-

sities across the province and then we should provide the infrastructure to allow students wherever they are to gain access to those courses without actually having to attend at the specific location. Telecommunications technology can do that today.

Efficiency in health care: We spend a lot of money in our health care fields. We have a lot of technology which can help us reduce the cost of those operations. An example that I will use is that we have done experiments with doctors in trying to provide them with better information in a more timely way by providing them with diagnostic information. One of the interesting things is that if we delay the time which it requires to put that information in front of them by two seconds, they get very upset if they're waiting. The fact that to have a consultation across the hospital with a radiologist takes them over half an hour, to walk across the hospital to find the radiologist, to have the consultation and walk back to the client, they're busy, but they're very inefficient in being busy because they're doing something which we can find other ways of doing.

It's very important that this government has to take on that role. I know it's difficult in this time of reduction of budgets, but I think we have to take on that role, otherwise I can't see how we're going to get out of the mess that we're in. We have to become proactive and we have to use the tools which are available to help reduce those costs.

I think if we do that, we have the possibility of launching international opportunities in the exploitation of those services. Other countries will look to this country in terms of our skill in providing education. I look to the United States at the present moment, at the NTU, the National Technological University in the States. It's a combination of 34 universities. It now graduates more graduate students than the entire group of universities that it draws its teaching from; very interesting if you look at the cost of undertaking your education, your educational processes. So I think there are some leverages there, and I think we could take some of this technology and we could commercialize it in the world.

As a negative to this, these industries require people, they require investment, they require home-market opportunities and they require a competitive tax regime. They are knowledge-intensive. That means they are people-intensive, and people are very mobile. It is one cause of concern that unless we get the entire package right to support that, we will see companies start to make these investments not in Canada but outside Canada.

Northern Telecom is already in that position. Its growth of its research and development activities outside Canada is approximately twice what's inside Canada at the present moment. It's recognizable and understandable in terms of their world-market position that they have to do that; they need to be close to their clients. But if we start giving people a very good reason not to be here, then I think we'll find that they will leave. That means that they can leave to go to other provinces where the tax environments and the people environments and the investment environments are more supportive.

I talked to one of my companies, a small company; it's

an entrepreneurial startup. It's a startup which this government has invested in. It's almost denied access to the market opportunity in Ontario. It's sold everywhere else in the country. It's sold in a lot of other countries in the world. He finds it very difficult to sell in this province, and we have to find a way of correcting that.

Those are all the comments that I would like to make. I would like to thank you for your attention.

**Mrs Caplan:** I have several questions. First, I'm wondering if you could suggest any guideline or standard as a percentage of GDP for investment in research and development. How much of our gross domestic product or gross national product do you think we should be investing in research and development?

**Mr Leach:** Well, if I take a look at world standards, you would come up with a figure of possibly 2.5%. If you look at the mix of our industry, being still extensively resource-based, you would probably come up with a lower figure in terms of gross national product, but if you look at the industries specifically that are in that wealth-creation, high value added sector, it should probably be significantly more than that. You should probably be talking in these sectors of 4.5% or 5%.

Northern Telecom is currently running at 11%. SR Telecom—I hope you're aware of the announcement—is now coming to this province. We've secured them, thank goodness, at last, after some considerable effort. They're coming because of the people we have and the skill base that we have; they're not coming here because of the tax concessions or anything else but because it makes business sense to come to an environment where the skills exist. They are currently spending about 18% of revenues. So as you get further up that chain, it starts to become very significant, but 4.5% is probably reasonable.

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**Mrs Caplan:** I think it's important that we have those benchmarks so we can then measure our progress; also, if you're talking about that kind of stability and security of the research and development investment, that we have something to measure our progress.

On page 7 you say that significant cost reduction and quality enhancement for our academic institutions can be achieved through the methods of using technology and research and development. I agree. I think a commitment to enhancing quality, elimination of those things that don't work, is the way of reducing our costs and our expenditure. I wish you could expand a little bit on some of the evidence you have of that taking place.

The third question, and I will just add it in because I know we're going to be short of time, is that you mentioned on page 8 that the government can support competitiveness through the development of systems which specifically enhance the delivery of quality services, all services that governments fund. I'd like you to be specific about the types of systems and models that you see are likely to achieve that. By "system," I think you mean people working together, networking in a formalized way?

**Mr Leach:** Let me come to those two questions. The first one you asked is on the subject of efficiency in the



educational system. The place to start is probably at the top end of the educational system. I think the universities are prime targets. They've been comparatively static in terms of the methodologies they have used for teaching for close on the last 2,000 years. We now have concepts that are being espoused—some institutions are already being built which are virtual universities. They don't have walls; they don't have physical infrastructure.

**Mrs Caplan:** Explain for the people watching what you mean by "virtual."

**Mr Leach:** The one example which probably doesn't fit in Canada but is a very clear demonstration of it is the NTU, the National Technological University, in the States. This is a university that is provided from, as I said, 34 universities. It's satellite-delivered. It's delivered only to people who have earth station capability for geostationary satellites, and that means large industry. Industry pays a quarter of million dollars a year for its access to those courses, and it's perceived to be a method not only of teaching at the academic level, but in terms of improvement in skill and of knowledge beyond the academic requirement. This is part of the infrastructure which educates industry on an ongoing basis, on an on-the-job basis.

I don't think that in Canada we have a resource base to be able to do that, but we do have telecommunications systems now, and we have one of the finest in the world, whereby we can start to deliver education remotely into people's homes, into other institutions, so that you can achieve maximum benefit. We already have examples between Guelph and Waterloo where this is taking place very effectively. Carleton University publishes a number of its courses over cable television. We already have some models which demonstrate the effectiveness of this.

We have to take the bull by the horns, be far more aggressive in terms of that. It requires a different teaching style, and it requires us to know how to deal with the pedagogical issues, which we really don't understand enough yet, but I think we have enough understanding to be able to say, "We know this is the way we have to go, to go about improving it."

In terms of our own systems, I can go right back to issues like the Ontario radio systems. The police, ambulance services, emergency services are all currently in the 1.8-gigahertz to 2-gigahertz region. These are regions which are now being given to PCS, which means that this province now has the opportunity, because it's going to be forced to do it, to restructure its entire communications system. We have to take the opportunity to set ourselves up as world-class in this, because if we don't, we're going to lose a major opportunity. It's going to be something that's forced on us. We can't not do it, because it's federal and North American in terms of its context.

But in terms of our own delivery of health care, how we get diagnostics out of the hospitals and out of the labs to the doctors, how we deal with remote communities, how we teach in remote communities, all of these things can be tackled by this type of activity. There are a lot of lessons here that we can take.

**Mr Carr:** Thank you very much for a very fine

presentation. I have two questions and I'll put them both together and give you a chance to answer them. On page 4 you talk about the two solitudes, the "ivory towers of academic learning and the commercial world." My first question is, what does the Ontario government do to bring those two solitudes together? Along the same lines, on the same page you say, "It is imperative that we continue to have access to the international research community so that we can bring skills and ideas into Canada." Again my question is, what can the Ontario government do to help in that area? Specifically, I'd like to know, in those two areas, what can the Ontario government do and what would you like to see them do to assist in this process?

**Mr Leach:** The issue in terms of what the government can do, and I think it does it by policy and approach, is that where the government allocates funds to the university infrastructure, those have to come with very specific requirements that they meet and are clearly defined to meet industrial need, and there should be a reporting mechanism to prove that they do meet the industrial need. In other words—

**Mr Carr:** Are they doing that now? Sorry to interrupt.

**Mr Leach:** Not really, because there isn't a mandate, there isn't a requirement. With the money that flows through the Ministry of Economic Development and Trade, which funds our operation, we have very definitive reporting requirements that say it must meet these standards, must meet this requirement of value to industry, and if industry isn't there, the Ministry of Economic Development and Trade will take our money away—very clear.

We don't have that discipline as far as the education system is concerned because it's perceived to be part of the educational infrastructure which takes people up to 22 and then dumps them out into the world. The real issue is, we're now dealing with lifelong learning, and we have to find methods of dealing with that.

It's clear that there should be some very specific pieces put in place. I'm not an expert in how to do that. My expertise is in research and development and interpreting for industry. We can probably help in helping to focus that, but I think it's a requirement on the government, really, to decide how to put those mechanisms in place.

**Mr Carr:** What about internationally, what we can do?

**Mr Leach:** The international thing I think is one where we have to find ways of supporting international research and development. Technology Ontario is funding initiatives with Europe and Singapore at the present moment. We seem to have forgotten that the biggest research and development operation in the world lies just south of the border here. We have to find ways of tying into NAFTA for research and development. It probably means that we may have to put some money on the table, but it may be money we can borrow from somewhere else.

To make it very explicit, the research and development that is funded through the province should be linked with

the international research community, not just interest-driven. So it has two requirements: It has to serve industry, and it has to be linked to the international community. If we get those two premises in place, a lot of things will change very quickly.

**Mr Sutherland:** In response to Mr Carr's question, I would certainly hope that if the government did that, we wouldn't hear the calls that we're intruding upon institutional autonomy, because that's the accusation you'll always hear doing that type of approach.

My question to you—and maybe you're not the right person to ask, because telecommunications seems to be well financed in terms of new research, in comparison to other research and development ideas. There does seem to be a lot of concern about lack of appropriate financial mechanisms to finance ideas in this country in terms of new research and development. I heard on the radio this morning that University Hospital in London, through Dr Cal Stiller, is establishing some type of Canadian medical venture fund because we lose a lot of our medical researchers.

Do you have any thoughts or ideas on what the government can do, besides the direct research funding we put out, to support new mechanisms for financing new research?

**Mr Leach:** I think there are already some mechanisms in place which, if properly targeted, would in fact achieve that. We have a number of labour-sponsored venture capital operations running in this country now. There's the Capital Alliance, which is the one in Ottawa which is just coming to fruition. We have the Working Ventures Canadian fund. There are a number of them, I think about five or six now that exist.

Working Ventures has over \$300 million in its portfolio. It's been very cautious in terms of its placement of that funding, and when you think of the people who are responsible for that, you can understand the care they're taking in the placement of that. But you can't have a venture capital fund where most of its investment is in treasury bills. That doesn't make sense.

**Mrs Caplan:** Right on.

**Mr Leach:** If they're going to attract this money—and this government and the federal government are equally responsible for attracting that money into that pot by the tax considerations and the tax concessions they've given on it. They should be insisting that that money is deployed, not in treasury bills to help fund government, but is implemented in industry in a way in which it will help industry grow and become competitive so we can take people off the street. We can then reduce UI and welfare, we can then get them paying taxes so they help to fill the tax coffers of the province, and then the thing comes right: You've got a positive spiral there.

But it's that sort of money that needs to be deployed. I don't think it's the role of government. In fact, I would be terrified if government were to take an active role in trying to sponsor the venture capital operations of companies.

**Mr Sutherland:** I was just wondering whether there were different tax measures or whatever that you thought

the government could take that would stimulate more in that area.

**Mr Leach:** I think there are some interesting things you could probably do with the banking or financial industries to encourage their participation in the success of the country rather than putting a lot of money into the pockets of the shareholders.

**Mr Frankford:** Can I make a friendly criticism of your comment about health and the use of technology? What you said seems to be very much centre out, that the hospitals would provide diagnoses. I would say that it should also be going the other way, in which the periphery is reporting. This brings in what I would call applied epidemiology, and I believe that's fundamental if we are going to be redirecting our health expenditures and hopefully moving from, say, 9.5% of GDP to 8.5%, which I believe is entirely attainable if we look at other models; of course it gives us a huge advantage over the US, which is 14% and growing.

**Mr Leach:** I think all these things are two-way. We have to find better methods of providing health care to people in the situation in which they exist rather than bringing them into the institutions. That doesn't mean to say that in acute situations you don't bring them in, but let's see if we can cut down on the \$300 million a year that we spend on air ambulance flying people around because we think there may be a problem. Let's find out whether there's a problem, and then worry about moving them around when we have to, not just do it on speculation because we can't get those services out to those remote communities.

We can't get official schooling systems out to the remote communities either. When you've got a small community, you've got one, two, three teachers trying to cover the entire subject spectrum. These people are deprived and yet we have the mechanism now to solve that problem.

**The Chair:** I'd like to thank the Telecommunications Research Institute of Ontario for its presentation.

This committee stands recessed until 2 pm this afternoon.

*The committee recessed from 1203 to 1403.*

#### ONTARIO COLLEGE SYSTEM

**The Chair:** We continue this afternoon with our first presentation by the Ontario college system, and I see there is a lengthy list of people making presentations on behalf of the Ontario college system.

**Mr Richard Johnston:** I'm Richard Johnston, chair of the Ontario Council of Regents for Colleges of Applied Arts and Technology, the advisory body for the colleges in the province. I'll let everybody else introduce themselves as we go through. Jay, do you want to start?

**Mr Jay Jackson:** Good afternoon. Jay Jackson, chair of our support staff workers, OPSEU, across the province.

**Mr Dean Barner:** Good afternoon as well. Dean Barner, chair of the OPSEU faculty in the province.

**Mr John Saso:** I'm John Saso, president of Niagara College and chair of the Council of Presidents.

**Ms Cynthia Hilliard:** I'm Cynthia Hilliard, president



of the Ontario Community College Student Parliamentary Association.

**Mr Bruce Hodgson:** My name is Bruce Hodgson. I'm chair of the Association of Colleges of Applied Arts and Technology of Ontario.

**Ms Cathy Zuraw:** I'm Cathy Zuraw. I'm the vice-chair of the administrative staff consultative committee, representing admin staff.

**Mr Richard Johnston:** Although we are many, our intention is for only two of us to speak. We'll try to use about 15 minutes and then leave the rest in time for questions to any of us you'd like to direct them to.

Those of you who were on the committee last year will remember that was the first year we brought all the players, major stakeholders, from the colleges here to speak as one. We did it because of a lot of the cooperation that we have accomplished, over this last three to four years especially, but also because we felt we were coming to an impending crisis in funding in the system. We were not asking for anything in particular last year, as you may recall, but just to notice what we were accomplishing and to hopefully respect that. I think this year we'd say it's a similar theme, except maybe we're saying it in spades this time. We've upped the seriousness of our situation significantly.

We have continued to grow dramatically. That's because there's a huge demand for this kind of applied education, as any of us can understand. In the last few years we've gone up as much as 35% at the same time as the dollars that have been coming to us have been declining. You'll see in the back table a description of what's happened to our funding over the last number of years and how the amount of money per full-time student has dropped fairly dramatically. Thereby our efficiency is increasing, one can say on the one hand, but the strain on the colleges is becoming enormous.

Teachers will tell you that it has meant, in some cases, a doubling of their class sizes, that the only way to accommodate it in some situations was to knock down a wall and double the size of the classroom. In other circumstances, as you will hear from the students, there has been some real fear of the imminent impact it's going to have on quality.

Our perspective is to say that we didn't just increase the numbers. At the same time as our sister system, the universities, has basically not grown in this last year we've grown another 4%, but we've also taken some major initiatives towards improving the quality of the product of our education in our system. We've undertaken reforms that were initiated under the last Liberal government with the Vision 2000 report and then initiated by the Treasurer in the 1991 budget here, and we've been doing those under very, very difficult constraints, as any of the players at this table will tell you. We will all sing from the same songbook on that.

But we're here today to tell you that essentially we don't believe it can go on and that the government is going to have to determine whether it wishes us actually to reduce access or whether it wishes us to continue to provide access and therefore to try to adjust in some way

or other the way we are funded, and I'll come back to that after Cynthia has made some remarks. But we wanted you to hear from our students in terms of how they are seeing this impacting them in their day-to-day life as students in the system.

**Ms Hilliard:** OCCSPA/APECCO is the Ontario Community College Student Parliamentary Association. We are a bilingual lobbying and networking group that represents the students of Ontario's colleges of applied arts and technology.

OCCSPA is unique in the way that we've been able to maintain a focus on educational issues. Student leaders examined the trend of student politics and discovered that despite protests serious educational decisions were being made without student input. Our student leaders began to explore other options besides placard-and protest-style lobbying and have tried to move on to what we term "new age lobbying." This meant a change in style and attitude. We know that we have to present viable solutions to the critical issues facing education and student leaders. We have gained a seat at various decision tables in the college system; for example, on the college restructuring committee and on the anti-harassment and discrimination committee. However, we remain absent from some important areas of discussion.

Last week I was honoured to attend the third annual Premier's Awards. These awards highlighted some of the outstanding graduates of our colleges. From the four areas of applied arts, business, health sciences and technology, the award winners demonstrated success related to their college experience and social contributions. We are celebrating these wonderful people and they are shining examples of the college system and the calibre of the college graduate.

Future graduates must match and even surpass the achievements of the past college graduates. Your well-being and our wellbeing depend on it. We are a student body that has grown significantly. Enrolment has more than doubled since the beginning of the 1980s. Access to college programs needs to continue to increase. The pressures of global competition, technological change and an aging labour force mean that a greater percentage of the population will need a post-secondary education and that lifelong learning must become common practice.

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As remarkable as our growth is, the increasing diversity of our student body is also remarkable. Our student body encompasses in significant numbers people of all ages, from their late teens to well into their 40s and 50s, people of all ethnic and racial backgrounds, people from all income backgrounds, many of whom have dependants, people whose first language is neither English nor French, people with a wide range of education backgrounds, from university graduates to mature students who may not have completed high school. Some of the data related to our diversity is provided in the written brief submitted to you today.

The changing profile of Ontario's population and our student profile call for accommodation by our educational institutions. We are fortunate to have this diversity. We can learn much from each other while attending college.

And there is much to learn. If we are to participate fully in the economic, social and political life of Ontario and Canada, we need a balanced education, one which assists us in acquiring not only job-specific skills but also generic skills, that is, skills such as communications, problem-solving and interpersonal skills, as well as elements of a general education which can serve us in good stead in both the workplace and in our lives outside of the workplace.

An important reform is under way in the college system: the College Standards and Accreditation Council. This council, composed of stakeholders from across the system and external groups such as business, labour and professional associations, is developing program-specific standards and generic skills standards and assisting with the implementation of a generic education framework. We are very committed to this reform and encourage your continued support of it. Budget cutbacks are affecting this reform and others, such as prior learning assessment and efforts to improve student retention, which are under way in the college system.

Students are very concerned about the impacts of financial restraints. Our fees are increasing dramatically. In the 1990s, tuition has increased by almost 50% to date, and fees are scheduled to increase another 10% in the next year, even if the proposed reforms of Axworthy do not come to pass. While we have succeeded in gaining some say in the types of activities that should be supported by additional fee revenues being received by the colleges, the fact remains that, on a per-student basis, college operating revenues, that is, the fees plus the government grants, per student continue to decline despite the fee increases.

These fee increases affect accessibility. They also affect the lives of those attending college. More of us must work year-round to be able to afford to attend college. For some students, this is manageable. However, for others this takes time away from their studies and it can seriously affect their success in a program.

The declining operating revenue per student which the colleges receive—a fall of more than 32% since the early 1980s—is affecting the quality of our education. Faculty have less time to spend with us, and the technology which we are using in our courses is often outdated or there is not significant access to it. Students currently attending our high schools are using more advanced equipment and, as a result, increasingly some are questioning enrolling in college programs.

Lifelong learning, supported by an open, accessible college system of good quality, is vitally important to today's and future students. Investments in better articulation between secondary schools and colleges are required; similarly, better articulation between colleges and universities is required. All stakeholders need to embrace the idea of what has been termed a "seamless education system."

In the near future, decisions will be made that will affect the students in Ontario's colleges. We ask that the provincial government, as well as the federal government, renew the commitment to lifelong learning and a quality education that is accessible and affordable.

I will now turn it back to Richard Johnston to conclude our presentation.

**Mr Richard Johnston:** I just wanted, if I might, to refer to the recommendations that we put before you. This is the fourth year I have made a presentation and the first time we have actually made any call for action from you. Mostly it has just been keeping you updated.

This squeeze that you've been hearing about from Cynthia and myself is one that we think now really has to be examined. We can't just keep reducing the amount of money per student without, at some point, saying what moneys we should really be spending per student in order to provide a good education. We can't look at that in a static fashion. It has to be with new technologies etc and investment in those and not just in the old style of teaching.

I want to read these two recommendations into the record, if I might, because they do reflect the consensus of all the stakeholders in our system.

—That the Ministry of Education and Training should determine what it costs per student to deliver college programs that meet learning outcome standards which have been widely agreed upon.

—That the cost per student should take into account inherent differences between programs and the cost of delivery and differences between colleges in terms of factors affecting costs, such as the size of the catchment area and the community characteristics including language.

Colleges should be funded on the basis of these per-student costs. We really do feel that it's time to establish those as a base.

The second point we want to make is the following: that the provincial government should assign priority to increasing accessibility to a college education that emphasizes applied learning and the acquisition of generic portable skills. This should include, in the provincial operating grant for the college system, funding to support adequate and responsible enrolment growth.

For those of you who know how the funding works, it's a very competitive funding which pits one college against another. It does not make logical growth, it makes competitive growth, if I can put it that way. It can be problematic and is becoming problematic and is running counter to many of the collaborative things we're doing, whether it's between the union and management or whether it's between the colleges and among the colleges with things like Con-nect, where we're trying to be a one-stop shopping for sectoral training, for instance. All these things that we're trying to do collaboratively are not aided by the funding formula, in fact they're hurt by the funding formula, and we really do think it's time to revise that.

The pitch we're making is not for a dramatic increase in dollars from the budget but rather at least a more rational basis for the decisions upon which we are funding a system which is so clearly needed at this time in the province.

We'd be happy to take any questions that you might want to put our way.



**Mr Carr:** I was just thinking I wish we had more time. We'd need a whole hour to go through just my questions alone, so I'll try to be fairly quick. You've got great talent here with you to help out today as well.

You talk about the funding issue, and I think the recommendations are very good, your number one recommendation. You said you came here with that. The problem is that I think that's difficult to do with the different programs and so on. Could you expand on how you see that working? How would we fund it on a per-student basis and what would be the difference between programs? Do you think there's a funding mechanism that you could see put in place that we could do that?

**Mr Richard Johnston:** Three of us at this table are on what's called the college funding review committee right now and we do have a very elaborate system of weighting of programs so that more expensive programs do get more recognition than others. What we have not as yet decided upon is what the appropriate base units of funding should be and how that might be affected by weighting, especially as we now look through the standards and accreditation process at generic skills acquisition that we're going to be expecting of all our grads.

I should tell you that by this spring some time we expect to have a consensus throughout our system about what the general level of education should be around mathematics, communications, interpersonal skills, problem solving—I've missed one, and that might be one of them, memory skills. But it does require us to look differently at how we operate. I don't know if John, as a president, or other members of the college funding review committee would like to speak to that.

**Mr Carr:** I guess I will have to jump in because I have another one too. You're just confident that we can come to this system.

**Mr Richard Johnston:** Yes.

**Mr Carr:** Okay, good. That's what I really wanted.

**Mr Richard Johnston:** It can be done.

**Mr Carr:** On the issue of access, you may have known, and I've asked this question to other people, the Minister of Finance came in the first day, sat I think in the chair you're in, Richard, and said that the money at the end of the social contract is not coming back in the system. What will that mean in terms of access?

I've sat down with the president of Sheridan talking about the numbers of increase and how they've done more with less and gone through it with Sheridan in my area. What's going to happen to access if in fact at the end of the social contract the money doesn't come in? Lord knows what's going to happen with the salaries and so on. What's going to happen to access at the end of the social contract in our college system?

**Mr Saso:** From my perspective, Gary, one of the biggest problems we've got is that it will have a detrimental effect on access. We really are at the bursting point now, some colleges more than others.

**Mr Carr:** So will we be turning people away?

**Mr Saso:** Absolutely. We are turning people away now. We've kept that a pretty well-guarded secret, but if you look at the OCAS, Ontario College Applications

System, figures, we have about 160,000 applicants trying to get into community colleges every year, first year, and we take about 75,000 to 80,000. There's more pressure from different sectors now that want to go to community colleges, everywhere from university graduates to university students to a much older population that are trying to get their footing. The problem is that we cannot take them all, and we are a significant way for people to change their lot and to improve where they're going. Access is being denied and it'll be even more denied to a much greater extent in the years ahead, not just social contract but there and beyond if there aren't some radical changes.

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**Mr Carr:** The ironic thing is, as you know, we're saying to people, "You've got to get the skills necessary," and so on, and everybody in this room agrees on that, and at the same time we're basically limiting access to some people to get the skills they'll need to get jobs and so on. Would you like to comment on the craziness aspect of that?

**Mr Saso:** I'll be very brief and then I would like my friends to make a comment too. The skills that are required at a college level in the industries that will be the way of life for people to earn their living in the future will be more complex. You can see the shift now to people who traditionally did not need a college education to be employed. The demand for people to have that education now is greater and it will be even greater in the future. But if we're going to deny access—we haven't got the equipment, which is another great problem—then you can see that we're not going to be competitive on a global basis. We're competing with global markets. That's where our students are going to be employed. If we don't do something to improve their ability to compete globally, we're going to have a lot more problems than we're having right now.

**Mr Carr:** Just a quick one on fees too. I was interested in the dramatic increase that we've had over the last little while in fees. You only have government funding and then fees, which is restricted too. Are we also at the end of the line in terms of the fees for students? Because the access isn't only government funding, it's fees. You may want to talk about the federal level and some of the loan programs and if that can help. What's happening fee-wise? Are we at the limit now with people who are saying, "I can't go to college; I know it's the way of the future but I can't afford it"? Are kids being turned away? I say "kids" because I'm older now. Are they being turned away because of the fees as well? What's happening in that area?

**Ms Hilliard:** I found it interesting that you said "kids," especially with the increasing older—

**Mr Carr:** I went back to Sheridan later too.

**Ms Hilliard:** Yes, with 24% of our students being mature students over the age of 25.

**Mr Carr:** I'm thinking mostly of the kids coming out of high school, though, in terms of the fees.

**Ms Hilliard:** I'm sure there's only so much more that the students are going to be able to afford. I don't think

we've yet hit that point, but I don't think it's that far off. You can say, yes, there are systems set up where students can get loans, but then we're also talking student debt loads. It's almost at the point where they're unmanageable now.

**Mr Sutherland:** I just wanted to make a brief comment. We certainly heard throughout these hearings that we need increased productivity in the public sector, that the public sector isn't productive. I think the college system is maybe not an ideal example but a very good example of how public services have become more productive. I think the hospital association is up next. We'll also hear about how that sector has done that. Since we've heard a lot about how the public sector is not, I thought it was important to note that the college system has done a very good job in becoming more productive in terms of the number of students it's been able to put through with fewer dollars.

**Mr Richard Johnston:** If I could just make a response to that, I think it is absolutely true, and it should be said in congratulating the players around me—not me but the players around me—who are actually working the system to make that happen. You compare the dollar figure in 1982 per student to what we're doing now, it's half. We're spending half the amount of money we spent in 1982 per student in our system at the moment. I would argue at the moment the product is still very good, but at some point we have to decide what the base amount is before we erode it for all the reasons that have been said.

**Mr Jamison:** These are pre-budget hearings and of course the views are varying depending on whom we talk to, but I believe it's very important for all of us to recognize that the college system really does provide a real service as far as building the ability of our society to compete in an ever-shrinking global world.

We've had a number of presentations today and most of them deal around the debt-deficit situation. The issue I think we're looking at as a provincial government is the whole issue around transfer payments, because again there are three levels of government and to some degree everyone plays a role along the way. Our level right now in the three major areas—the health, the education and the social services, which is 70% of the provincial budget—has dropped to somewhere around 29%. We're looking at a federal budget. The Finance minister has made it clear to us, when he gave his presentation earlier on to this committee, to really be thinking about and asking the question: "What if? What if the federal government were to arbitrarily do the same thing other previous governments have done, and that is, the big lateral of the weighted football in the amount of \$1 billion or \$2 billion? What will that do?" And of course the whole question around what that means to students, when we're talking about education, because it's well known that the ability to obtain funding may be changed in a very detrimental way to the average student.

**Mr Richard Johnston:** I think we don't have a particular consensus of how we would all want to respond to the federal budget, not having seen it as yet, but to say we're all worried about it, very worried about it, and the things that have been mooted about it in the last number

of months make the social contract question just pale in comparison. We can survive that adjustment, but what we are not sure about is the enormity of the transfer cut that may come and where that leaves a government in terms of this level of government.

The argument I made to the Finance minister the other day at a session with business and other people at it was in fact that it's time, besides the general tightening that has to take place around deficit reduction—I think that's probably accepted by most—there has to be a strategic investment decision. I can't see from my perspective, and I know it's coloured after four years around the colleges, but I can't see how we wouldn't as a society want to invest in this level of education, given the application of the learning and how vital that learning is to the economy at this point. If you look at the grads who are in that Premier's awards list, they are incredibly essential members of our society. We have almost a million people per year go into the colleges, on a part-time and full-time basis. To lose the investment in that would be a mistake, in my view.

So I think it's time, if it's a big hit on the transfer, that the government really does need to look at it as strategic investment and to pick losers and winners. As an old politician, I know that's one of the hardest things to do. It's easier to do across the board than it is to pick and choose, but my belief is, if we want to stay competitive economically, we'd better invest where we can get fast return on that investment in terms of the economic benefit, and I can't think of a better place than the one I've been lucky enough to serve for the last four years.

**Mrs Caplan:** I'll just try to keep it to one or two short questions, and I know Mr Phillips has one as well.

I'm a strong supporter of the community college system, and I agree that the product is good, and I also agree with you that you don't need more money in order to improve the quality of the outcome and that you've done an excellent job. I support the learning outcome standards.

One of the concerns I have about per-student funding in the community college system is that different programs have different costs. How would you ensure in a per-student-funding formula that the more expensive programs would in fact be offered—the needed programs?

**Mr Saso:** Very quickly, the additional weighting for programs is supposed to address the issue of the costs of technology, but the cost of technology no longer is really in that program weighting because we need it just basically to cover the very essential costs. So I think the quick answer is, get us a strong pool of dollars to address the technologies. As Cynthia said, we're far behind the high schools in a lot of areas. Our equipment, when the students come to us, is much less sophisticated than what they're used to. We're way behind the eight ball already. So a pool of funds directed at technology would be of great assistance.

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**Mr Phillips:** I've appreciated the colleges' presentations over the years because I think you've been realistic



about the finances and what's available, and I commend you for it. My instincts are that we're not through with the restraint and my strong belief is that the public understands there is only one taxpayer and that no level of government has a pot of gold that it can give out. So whether we like it or not, if the federal government's going to get its fiscal house in order, it has to practise some significant restraint. I would say to college students, it's probably in your best interests, because in the final analysis, the younger people are going to pay more for this debt than the older people.

Having said that, the province has tried to get its finances in order, dealing with its transfer payments. You have gotten substantially less money from the province over the last five years and that makes sense. The federal government, a huge part of its payments go to its transfer partners. I see from the ministry document here that federal money to the province for what's called established program financing, that you know is post-secondary school education and health, has been going up an average of 5% a year for the last 10 years. Is it possible that the province or the federal government can continue to increase those payments at 5% a year?

**Mr Richard Johnston:** Well, I doubt it, but we haven't been getting that 5% increase. I don't know where it's gone, but it sure hasn't come to us, I would say. We have in fact, on just a straight productivity basis, done things which I don't even think a lot of the private sector has been able to manage, in terms of the percentage of drop per student in income, plus the number of people served. I mean, it's just incredible. If you think that one out of 10 Ontarians is in some way or other involved in a community college every year, that's pretty phenomenal that we've been able to do that. So I don't think we're expecting a sudden great dollop of funds.

We're basically saying that we need a different rationale for the money. If everybody agrees that what we're producing is what we need, then let's make sure we're giving the right amount of money to do that and we don't just play it off in a budget game, rather than looking at what the effective outcomes are.

**Mr Phillips:** I think that's a useful comment. I think all of us kid ourselves if we think that another level of government has suddenly found a pot of money. We're in for a long period of restraint. That's just reality. I appreciate the recommendation.

**Mr Richard Johnston:** In our statement we do make a plea for the technological aid and we could do that in partnerships because of how strong our partnerships are with the business side, a very attractive way for government, I think.

**Mr Saso:** My suggestion is yes, there's only one taxpayer but create more of them by creating well-educated people who can go out and earn a good living and become a taxpayer.

**Mr Phillips:** Hear, hear.

**The Chair:** On that note, I thank the Ontario College System and all its representatives. I would ask those who would like to have private conversations if they could move outside the committee room.

#### ONTARIO HOSPITAL ASSOCIATION

**The Chair:** I would like to invite the Ontario Hospital Association to come forward at this time.

**Mr Peter Harris:** Thank you, Mr Chairman. OHA is pleased to have this opportunity to make a presentation to the standing committee on finance and economic affairs. My name's Peter Harris and I'm the chairman of the board of OHA.

We are here in the dual capacity of guardians of the quality of our health care system and as advocates of the existing excellence and continuing improvement for which OHA and the hospitals are striving. There are many pressures for change in Ontario, not only in the health care system, but throughout the private and the public sectors. As Peter Drucker recently observed, we are in an unprecedented period of transformation. We are not just reinventing or redesigning hospitals; collectively we are in the process of reinventing government and its relationship to its citizens.

We fully appreciate the decisions about hospital funding must be made within a broader context. OHA is not here to advocate narrowly on behalf of hospitals, but we are here to advocate broadly for the needs of the people of Ontario. We are not asking for increased funding. OHA and the hospitals recognize that those days are long gone. But we are asking that the government stop moving the goalposts and, instead, give us a stable funding and operating environment in which we can manage and plan effectively.

This era of change has heightened awareness that although we all use the term, we do not have a provincial hospital "system" as such. We have and have had a provincial hospital funding system within which hospitals operate relatively anonymously. To use management jargon, hospitals today are tearing down organizational and functional silos. The language of health care reform in Ontario is focused on linkages, partnership and collaboration, and hospitals have taken that to heart.

A variety of forces have come together in the past few years to change traditional ways of thinking. Perhaps the most important was the recession, which instilled in government and its transfer partners a sense of urgency about the need to re-examine funding. We are besieged by an unending stream of advances in medical knowledge, pharmacology, technology and biotechnology, and the lives of extremely premature babies and people with once fatal diseases are being saved and organ transplants are virtually routine. The so-called medical or curative model can do more things than ever before and they are more and more expensive. Our crisis is one of affordability and to some extent it is also one of values and of ethics.

Management expert Rosabeth Moss Kanter, who spoke at our national annual convention in November, has said that change and innovation begin with need. Hospitals have faced up to need in the 1990s and they have changed, and dramatically.

Last year's supplementary government budget paper, *Managing Health Care Resources 1994-95: Meeting Priorities*, acknowledged the changes that have already

taken place. It commended Ontario's hospitals for their impressive productivity gains since the 1989-90 fiscal year. Among those changes are average length of stays that have dropped 20% to 6.5 days; overall acute care productivity increased by 18.5%; overall acute care cases increased by 8.8%, or 1.3 million; inpatient acute cases dropped by more than 5%; outpatient services increased by 10.4%; and almost 7,900 hospital beds have been closed.

We have been simultaneously restructuring and redesigning health care delivery, management and governance in Ontario. Hospitals have been working with district health councils to explore and implement various approaches at the local level through rationalization and regionalization. On a community-by-community basis, specific solutions include mergers, amalgamations, alliances, shared services and joint ventures. OHA is aware of 53 hospital restructuring initiatives that are currently under way across Ontario, and some hospitals are involved in more than one project.

The environment in which hospitals exist has changed dramatically over the past five years and it continues to change. Since 1991-92, hospital funding levels have not increased. In fact, they have actually declined. In January 1992 the Finance minister, Floyd Laughren, made a commitment to multi-year funding for hospitals, schools, colleges and universities to compensate for reduced transfer payments. He said at the time, "To help plan the reform and restructuring that must take place in each of these sectors, I am today announcing their funding levels for the next three years."

The commitment was that hospitals would receive a 1% increase for 1992-93 and 2% per year for 1993-94 and 1994-95. With the annual rate of inflation at approximately 2%, budgets were relatively flat-lined.

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Almost immediately that arrangement was superseded by the three-year regime imposed by the 1993 social contract and expenditure control plan. The social contract and the 1993 budget together created a climate of severe restraint by eliminating funding increases to base budgets and imposing cutbacks in the public sector.

We are now two thirds of the way through the social contract. The short-term impact in the hospital sector, as elsewhere, has been unpaid days and dislocation of jobs. The ultimate outcome is that \$200 million has been permanently removed from the hospital budget base, while general inflation and cost pressures specific to hospitals have continued in spite of the social contract.

It is in that context that the previously mentioned accomplishments of hospitals must be viewed. Hospitals have managed to do significantly more with reduced levels of government funding, which accounts for 80% of their revenue.

A great deal of what has occurred since 1993 has been made possible because hospitals had, or felt they had, enough information to plan beyond the immediate fiscal year. As Rosabeth Moss Kanter has said, "In an effective organization the mean time between surprises must be less than or equal to the mean time between decisions."

We're simply asking for some lead time before the next surprise so that effective decisions can be made. Hospitals are keenly aware of the need for change, but changes that affect hospitals, patients and health care workers must be planned, and the plans can only be as effective as the window of opportunity provided by the planning cycle.

For several years now there has been recognition that one of the stumbling blocks in the way of a genuine provincial hospital system has been the funding mechanism for hospitals, which does not take into account workloads or demographic changes. In 1988, the Health minister of the day recognized this when she promised to evaluate and modify the hospital funding system, working in collaboration with the sector. The ensuing transitional funding initiative involved ministry and hospital representatives, who worked together to develop a fair methodology. As a result, an equity formula and a growth formula were developed to distribute funds on a more equitable basis than had previously been the case.

In 1991, OHA proposed a formal body for collaborative planning with the ministry. As a direct result, the OHA and Ministry of Health joint policy and planning committee, or JPPC, was formed in 1992, with a mandate to recommend and facilitate the implementation of hospital reform within the broader context of Ontario's health reform agenda. This joint partnership involves more than 150 representatives from Ontario hospitals, participating as volunteers working with ministry and OHA staff on a variety of committees. One of the JPPC's objectives is the creation of a system of hospital funding that promotes equity, effectiveness and efficiency among hospitals.

In February 1993, the JPPC hospital funding committee was asked to consider the feasibility of a funding reallocation in 1994-95, given the reality of a clawback in funding due to the social contract. In October 1993, the ministry indicated the urgency of proceeding with reallocation, which was seen as one of the few sources of funding to alleviate financial pressures on hospitals, and at a meeting of JPPC, the statement was made by the deputy minister that if reallocation did not occur, other ways to alleviate these pressures would have to be found; for example, further across-the-board reductions in the Ministry of Health allocations to all hospitals.

The JPPC hospital funding committee recognized the disproportionate effect of funding pressures among hospitals. A methodology for funding reallocation was developed to shift resources within the hospital system. This methodology takes need into account as well as recognizing hospitals that have consistently demonstrated lower-than-average costs for specific categories of cases over the past five years. Obviously, this meant that some OHA members would be adversely affected by funding reallocation. None the less, the OHA's board decided that reallocation would be in the long-term interest of the public and hospitals and that it should proceed.

In October 1994 the government informed the hospitals that funding reallocation would be suspended, before a penny in actual funding had actually been shifted. After more than 20 months of discussions and negotiations, the government effectively backed away from the guiding



principle that equity and fairness in hospital funding is a crucial element of preserving high-quality patient care.

OHA has concerns about the ongoing ability of the health care system to manage its human resources effectively in the face of uncertainty about funding levels. It is virtually certain that there will be further downsizing in the hospital sector, with fewer overall jobs. While we are conscious of budgetary consideration and supportive of new approaches to health care delivery to meet patient needs, OHA is adamant that patient care requirements must continue to be the foremost consideration in the context of change.

**Mr Dennis Timbrell:** In previous appearances before this committee and in other public appearances, the OHA has indicated its unwavering commitment to maintaining and improving the quality of service delivery in the health care sector during this period of transformation and on into the 21st century. The goal is to provide the right service to the right person at the right time in the right setting. It's clear that to do this we will have to balance needs against available resources, taking affordability into account. The key to success in this is to focus on properly identifying the needs of patients and the public and then meeting those needs appropriately.

Managing change in the health care system requires informed decision-making, and this in turn requires better data about the system than have usually been available in the past. This deficiency is being addressed through the work of several organizations. The OHA-Ministry of Health JPPC is refining information about case costing to aid hospitals in measuring and comparing their performance. The Institute for Clinical Evaluative Sciences, or ICES, as it's called, was established by the joint management committee, the JMC, to look at the quality, effectiveness, efficiency and accessibility of medical care in the province, and it has produced several important reports related to medical practice patterns and hospital utilization. In May 1994 it released the first edition of the Practice Atlas, entitled *Patterns of Health Care in Ontario*, which highlighted the troublesome issue of regional variation in rates of surgical procedures.

Noting the seductiveness of "quick fixes" to the challenge of the affordability crisis in health care, the atlas called for the creation of an Ontario health services council to broker the interests of the full range of stakeholders in the health care system as we look at alternative ways of organizing, funding and delivering care. The OHA strongly supports the creation by the end of 1995 of an independent Ontario health services council to look at issues relating to utilization, accessibility, implementation of health care research and physician referral patterns. As a first step to this type of collaboration, the OHA, the OMA, the ministry and the Association of District Health Councils of Ontario have agreed to create a joint implementation committee between the JMC and the JPPC to ensure that ICES research results are communicated and implemented in the delivery system. Improvements in health care delivery require the joint action of many people and groups, and this collaboration will speed up the process for improvements in the system.

As in other jurisdictions, health care in Ontario is in

the midst of transformation. As we have indicated, there have been many recent changes in the care that is provided and how and where it is provided. There are other issues that need to be integrated into the reforms that have already occurred. For example, the new multi-service agencies being created under the auspices of the Long-Term Care Act will have significant implications for the other elements of the integrated continuum of home, community and hospital care that is one of the key goals of health system reform.

There are many outstanding implementation issues with regard to MSAs, not the least of which is the pension plans and the certification of employees. One long-standing issue that must be addressed in the near future is that of alternatives to fee-for-service compensation of physicians, particularly for emergency department on-call coverage.

OHA has also been working with the Ministry of Health on a proposal that hopefully will ultimately lead to the creation of hospital crown foundations so that a level playing field with respect to hospital gift-giving will be re-established.

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The health care system in Ontario, as in other jurisdictions, is in the midst of transformation. A period of funding stability is clearly required so that reallocation and restructuring can be accomplished and so that it can be done effectively and with sensitivity.

We therefore urge this committee to recommend to the provincial government that transfer payments to hospitals remain at the announced 1995-96 level. We recommend to the provincial government that it proceed as soon as possible with the implementation of hospital funding reallocation specifically, as well as with funding formula reform in general, and recommend that the government establish immediately an Ontario health services council.

**Mr Jim Wiseman (Durham West):** On page 3 you talk about an equity formula and a growth formula which were developed to fund hospitals on a more equitable basis, and that this would form the basis of the JPPC evaluation of hospitals in Ontario that came up with the list of 22 hospitals that would have funding reallocated. Is that correct?

**Mr Timbrell:** No, the equity and growth formulae came out of the 1988 initiative on transitional funding. That, in turn, developed into the hospital funding committee of JPPC, because when there were extra dollars available each year the question was, how do you distribute X dollars more equitably and fairly? Of course, since 1992 we've been into an era of deflation in funding and flat-lining in funding, so now the question is, given that there are all these pressure points in the system, how do you allocate, or, if you will, reallocate within the defined limits of the funds available to ensure that those with the greatest need are getting funding? That means identifying hospitals that are at the high end of the scale in terms of their cost per weighted case, which includes a hospital in your consistency, which is the point of your question, of course.

**Mr Wiseman:** It was actually more directed to

Durham region as a whole, which is underfunded on our cost-per-constituent basis compared to others. Hospitals in Toronto have surpluses and moneys in the bank; I know of at least two that have at least \$5 million in the bank. And yet, as you brought up my hospital, here you've got a hospital and a population that has tripled since it had its last expansion in 1967 or 1968, has the same number of beds as it did then but has now 135,000 people. Down the road in Oshawa you've got the Oshawa General Hospital, which is 135,000 to 140,000 people but has a budget of over \$100 million compared to a \$28-million budget in Ajax-Pickering. Ajax-Pickering is the hospital that gets nicked for \$850,000. Part of that money was going to go to Oshawa. I really have a little trouble with the JPPC formula that would do that to a hospital in a growth area.

**Mr Timbrell:** With respect, I don't think you've walked through the JPPC formula. We'd be glad to arrange for you to do that.

You can appreciate where it becomes very difficult for a hospital association dealing with these questions, because by making the commitment to be part of solving the problem, it means that sometimes we have to support policies and proposals which will fall unevenly across the membership. That was a very conscious decision, after a lengthy period of debate, that the board of the OHA made.

You cannot, with respect, make that kind of simplistic comparison, because no two hospitals are the same, either in terms of the programs which they offer or in terms of the demographics or the complexity of the programs in those hospitals. In this instance, the formula was developed to look at the variations, if you will, in cost per weighted case at the upper end of the scale over a five-year period, and there were 22 hospitals that came out, at the end of the evaluation, as having costs at that upper end of the scale consistently over the five-year period. If any hospital was below a certain level in one year of the five, it was taken out of it. But those 22, including the one in your constituency, were at the upper end of the scale.

That doesn't mean to say that there aren't other issues that have to be resolved with respect to certain life support programs and in respect of additions. In the last few years I don't know of any hospital that's had an addition, including the one in your constituency, including the Montfort in Ottawa and many others, that have had any additional operating dollars assigned to them. They're all being told, "You can have the addition, you can do this, you can do that, but you have to do it with the same operating funds." That is causing some problems and it's another factor that the hospital funding committee is going to have to address.

**Mr Phillips:** Let me start by congratulating the OHA and Mr Timbrell and particularly the volunteer board members for doing a great job of managing the system with limited resources; I take my hat off to you.

Your three recommendations on the surface make a lot of sense. I wanted to ask you a question, though, about one of the key concerns you raise within your document, that is, the multiple-service agencies that I believe are

coming into effect April 1 of this year and will have quite a profound impact on the community. As you know, we've had some significant concerns about the multiple-service agencies. You indicate here that there's a particular problem with pension plans. I'd like to know a little bit more about that and just how significant a problem that is for us.

**Mr Timbrell:** The OHA is a member of a group called the Ontario health providers' alliance, for which we thank the provincial government in that it arose from the social contract. The government did what no one else had been able to do for years, and that is to bring together the full array of health provider groups and make them work together. We found that we could work together through the social contract, and liked it so much we decided to keep doing it, so we meet at least monthly in developing responses to policies of mutual concern.

This whole issue of Bill 173 is a major concern to the entire health providers' alliance in that, as you know, a number of organizations, St Elizabeth Nurses, VON, Red Cross and others, believe that the 80-20 rule embodied in the legislation will put them out of business, will cause a transfer to these new MSA corporate entities of most if not all of their staff, will leave them with major residual obligations with respect to pension issues for those staff, with no funding. They'll be out of business. They'll have no funding to honour their commitments. There will be interruption in service of many staff who will be transferred between the agencies.

Frankly, none of this had been considered by the government until it was drawn to its attention by the health providers' alliance about a month before the bill finally passed through the Legislature. Now, when the issue comes up, as it does regularly in various parts of the province, as health councils are looking at the issue of the creation of MSAs, the answer from government officials is: "Don't worry about that. That will be solved." Well, that hasn't been solved, and our view is that not one single MSA should proceed until those issues are resolved, in the interest of both the employees and the employers.

**Mr Phillips:** I'll ask this question very quickly. We think it's a major problem, and it's coming on us very quickly. How big a problem is this, in your mind? Is it significant enough that we should be delaying the establishment of these MSAs until it's resolved?

**Mr Timbrell:** I don't think there's any question that it's significant enough. The consultant the government keeps promising hasn't even been hired yet. Diogenes has been searching the province for two months for somebody wise enough to solve this one and so far as come up blank. There's no question in my mind that this legislation should not be proclaimed until a way is found to resolve this pension problem.

**Mr David Johnson:** In actual fact, it's somewhat unlikely that the MSAs are going to be prepared to go ahead in the time frame that the government has announced, as far as I can see—well thought out.

Thank you, Mr Timbrell, Mr Harris, for an excellent presentation. I can sympathize, having been at the municipal level for a number of years, as you're probably



aware, with the need to have funding so that one can plan. I think that's essentially what the hospitals are saying: They need to be able to plan. In our consultations with the people of Ontario, health care has been identified as the one area that should be sealed in an envelope in terms of the funding, and those in the health care field should be aware of what is available so that they can plan ahead. That's our approach to the hospitals and to the health care field.

I wanted to ask you again about the formula. As you know, I've been associated with the Toronto East General Hospital and there's been concern in the formula with regard to those hospitals with catchment areas with high proportions of elderly. I think St Joseph's and the Toronto East General, for example, are two hospitals that feel they're in that sort of predicament. Are you satisfied with the formula?

**Mr Timbrell:** Yes, in terms of the factors that were examined, accepting first of all that there's a finite amount of money; there are pressure points in the system that have to be addressed. Then inevitably you have to conclude, well, that means we have to take from some to give to others within the system.

**1500**

That means then you've got to go through an exhaustive process to identify, with the data that are available and the systems that are available—and admittedly they're not perfect; they're getting better with every passing year but they're not perfect—those who are well beyond the mean. Unfortunately, that identified a hospital in your constituency, one in Mr Wiseman's constituency and one in Mr Ruprecht's. There were 22—

**Mrs Caplan:** North York General?

**Mr Timbrell:** Was the lowest.

**Mr David Johnson:** Wait a second, this is my time. Ignore her.

**Mr Timbrell:** What we did, though, was insist as an association that there had to be an open appeal process so that hospitals could come in and put forward their arguments for the factors that they think the formulae didn't address and that made them that much more unique. That was done, and I think of the 22 hospitals, the appeals were granted for about four or five hospitals. The balance were not granted.

**Mr David Johnson:** We're going to run out of time here quickly. Just to get on to the differential between hospitals in terms of how they approach service utilization, accessibility, referral, that sort of thing, I think you're saying that there should be a study. I guess that's essentially your third recommendation, is it? This is probably my last question: Can you give us some kind of idea in terms of the magnitude and the timing, what might come out of a study that would try to apply—it's obviously a very delicate area, but uniformity?

**Mr Timbrell:** I would commend to you the work that has already been produced by the Institute for Clinical Evaluative Sciences. The OHA is very supportive of this organization. It has been immensely helpful to medical staff, administration, boards and others in identifying where individual hospitals and departments are, again, off

the mark in terms of provincial norms.

That isn't to say that because they're over or under that they're necessarily bad. You have to identify where there are these differences so you can investigate them and at least satisfy yourself that there is nothing out of line. In most cases, what we're hearing is that this is a very useful tool, as is case costing.

One of the hospitals that was hardest hit, in fact, in the reallocation commented after they objected to the reallocation that thanks to case costing they were better able to identify where they could save the requisite amounts than they had ever been able to do in the past. Right now, we only have 13 hospitals on case costing. We want to eventually expand that to all 216 hospitals in the province, to better arm every hospital with that ability.

**The Chair:** I thank the Ontario Hospital Association for its presentation.

#### ASSOCIATION OF MUNICIPALITIES OF ONTARIO

**The Chair:** The next presentation this afternoon is by the Association of Municipalities of Ontario.

**Mr Bill Mickle:** With me is Bill Croome, who is reeve of the town of Paris and co-chair of our fiscal and labour policy committee, and Evelyn Ruppert, who is manager of policy for AMO. My name is Bill Mickle, reeve of the town of Exeter, and president of the Association of Municipalities of Ontario.

It is a pleasure to present the Association of Municipalities of Ontario 1995 pre-budget presentation, titled *Honouring the Commitment: Putting Tools in Place to Reduce the Cost of Government*.

Introduction: Municipal efforts to cope with the constraints of the social contract and expenditure control plan continued through 1994. Finding ways to do more with less while avoiding mill rate increases wherever possible made for a year of continued challenge to municipal councils across the province.

The social contract and the expenditure control plan represented a tremendous financial burden to municipalities, reducing transfer payments by a total of \$390 million. In this environment of severe fiscal constraint, what had become apparent to some became obvious to all. The old solutions of more money and more programs were no longer possible. If municipalities were to meet the demands of delivering quality services and value to the taxpayers, changes had to be made.

On the heels of the social contract came what many believed were the tools to bring about that change. Commitments under the municipal framework agreement brought the promise of progress as the province agreed to make the legislative amendments needed to give municipalities control over police budgets and review interest arbitration and collective bargaining. The government had also made a commitment to work with AMO in performing an analysis of the direct and indirect impacts of provincial decisions on municipal finances.

In addition, the Pilkey task force was examining ways of eliminating duplication and finding efficiencies, and the Fair Tax Commission had completed its landmark review of taxation in Ontario and made recommendations

for change, many of them highlighting the need for local government finance reform.

Despite the difficult financial circumstances, many municipalities were encouraged by these signals of change to come. Securing these long-sought reforms would grant municipalities an added measure of control over their ability to cope with the opposing pressures of increasing costs and decreasing revenues.

One year later, the government record on social contract commitments is abysmal and advancement of this agenda for change has been non-existent. Recommendations of the Pilkey task force? The government has taken no action. Recommendations of the Fair Tax Commission? No action. Influence on police budgets? No action. Guidance for arbitrators? No action. Cumulative analysis of provincial measures? No action. No further reductions? The government added \$19 million in costs to municipalities through supplementary assessment charges.

How does the municipal record compare? Social contract and expenditure control plan: \$390 million in costs to municipalities, paid in full. The imbalance is obvious and the inequity is clear. In this pre-budget submission, municipalities are not asking for anything new. Municipalities are simply asking the province to deliver what it promised.

AMO's pre-budget recommendations:

**Holding the line on unconditional transfer payments:** As promised under the social contract, the province has held the line on unconditional grants transferred for 1995. The timing of the announcement, which coincided with the finalization of municipal budgets, was also welcome. However, this news was tempered by the suggestion that the actions of the federal government could hamper the provincial government's ability to maintain this funding level.

We are aware of the pressures that federal government decisions place on provincial coffers and are more than familiar with the difficulties of relying on senior transfer partners. The graph on page 3 of our brief, which represents the trend in municipal unconditional transfer payments, bears stark witness to this reality and brings into question whether further reductions are supportable without massive reductions in municipal service levels.

As discussed in the introduction, the provincial government's failure to honour any of the commitments it made in order to secure a municipal agreement is central to our current frustrations. Municipalities bargained in good faith and have lived up to their side of the bargain; the government has permanently removed \$390 million from the municipal sector. Meanwhile, the government has refused to honour commitments made in a legally binding contract, commitments that were to have provided the tools municipalities need to find the efficiencies and permanent cost savings necessary to meet their targets. This is beyond being unfair.

1510

Adding to our frustration is the fact that in 1996 the province will remove an additional \$50 million from the unconditional transfers to municipalities to satisfy the

deferred portion of social contract reductions.

It is unacceptable for the provincial government to expect municipalities to endure additional transfer payment reductions in 1996 when the province has failed to honour its obligations under the sector framework agreement which, when implemented, were to provide municipalities with the tools to accommodate the funding reductions associated with the social contract and expenditure control plan.

**Mr Bill Croome:** Transportation issues:

Delays in grant funding announcements: At the time of this writing, the province had yet to announce the road grant funding for 1995. The timing of this allocation announcement has caused concern in municipalities over the past number of years, with delayed announcements conflicting with municipal construction schedules. An added complication for the 1995 announcement lies in the uncertainty surrounding the funding levels and whether they will be at least equal to last year's. Municipalities experienced some difficulties in 1994 when the grants were announced late in the year at a lower-than-expected rate and with new restrictions on how the grants could be used.

AMO urges the province to announce the 1995 road grant allocations without further delay, to remove restrictions from moving funds between capital and maintenance allocations, and, at a minimum, to maintain this funding at current levels.

MTO directive regarding the application of development charges to road projects: In late November 1994 municipalities received a directive from the Ministry of Transportation regarding the inclusion of municipal road improvements in lot levies. Essentially, the ministry informed municipalities that it would no longer subsidize municipal road improvements that are identified in the municipal development charges study. Implementation of this directive was scheduled for January 1, 1995.

As the Ministry of Transportation must have anticipated the negative implications to municipalities, it is completely unacceptable to implement the directive on such short notice, particularly since the ministry was fully aware of the directive as early as May of last year. The Association of Municipalities of Ontario requests that the province reconsider this decision, delay the implementation and immediately undertake consultations with affected municipalities.

Transfer of provincial highways: Over the past number of months it has come to our attention that upper-tier municipalities have been approached individually by the Ministry of Transportation with offers to negotiate the transfer of provincial highways. AMO has deep concerns about the manner in which these negotiations are taking place, as no formal protocol or process exists. In fact, the ministry denies any knowledge that transfers are being contemplated or discussed.

This divide-and-conquer approach to downloading more provincial responsibility does little to foster trust and cooperation between our two levels of government. Accepting responsibility for additional roads will have long-term implications, and it is only equitable that



municipalities should be in a position to negotiate from an informed perspective.

AMO strongly urges the province to bring this process into the public domain and immediately establish fair and equitable guidelines as the basis for any negotiations that may take place with respect to agreements to transfer responsibility for provincial highways to upper-tier municipalities.

An end to downloading: Of late, the provincial government has repeatedly expressed its concerns about the potential for decreased federal government funding in the upcoming federal budget. Those concerns are very real, and we support the province's commitment to protecting its revenues. AMO would like to reiterate the need to offer the same respect to the municipal government by asking the province to make a commitment that it will not download any further costs or responsibilities to municipal government.

In 1993 the province decided to broaden the retail sales tax base, involving extensions to insurance premiums, parking, both metered and commercial lots, and soil, clay, gravel, sand and unfinished stone. These changes were made without prior consultation and resulted in an estimated impact of over \$70 million.

In 1994 the province boasted, "No new taxes." Several months later municipalities found themselves the arbitrary recipients of a new \$19-million charge for supplementary assessments.

In addition to these relatively direct impacts, municipalities are increasingly required to fund provincially mandated programs from existing revenues. The province's 3R regulations mandating curbside recycling programs are one recent example.

AMO requests that the province refrain from implementing or mandating any further decisions which have direct or indirect impacts on the property tax base.

Cumulative impact assessment: Section 4.6 of the municipal sector framework agreement under the social contract commits the province to provide a cumulative impact analysis of provincial policy and program changes on municipalities. The purpose of this analysis was to add up both the direct and indirect costs to municipalities of provincial decisions. Substantial work has been undertaken by both the Ministry of Municipal Affairs and the association, and a framework for the analysis, including a list of categories of impacts, has been developed. The province has had ample opportunity to participate in developing an impact analysis that incorporates its perspective, yet no analysis has been performed to date.

AMO urges the provincial government to cooperate in the performance of the cumulative impact analysis in assessing the impact of government initiatives on municipalities from 1993 through 1995. We further advise that should the government fail to perform this analysis, AMO will proceed independently, with the intent of publicly revealing the cumulative impacts of provincial decisions on local taxpayers.

Repeal supplementary assessment charges: AMO is deeply concerned that the decision to charge for supplementary assessments has implications beyond the immedi-

ate financial impact of \$19 million per year. As detailed to the government on several occasions, AMO believes that changes to the existing funding responsibilities for the assessment function should not have taken place outside of the context of a broad review. Further, the timing of the charge places serious demands on municipalities already pressed to the limit by the recession, the social contract and the expenditure control plan.

AMO recommends that the province immediately repeal the decision to charge for supplementary assessments.

Move forward with implementation of the Pilkey task force recommendations: The provincial-municipal, or Pilkey, task force was established under the municipal sector framework agreement to the social contract and charged with identifying areas where duplication and overlap exist in provincial legislation affecting municipalities. The final report of the task force was released in September 1994 and contained 123 recommendations. As yet, no plan for implementing those recommendations has been unveiled. The recommendations have the potential to create greater efficiencies in the delivery of municipal service, both from the provincial and municipal perspective.

#### 1520

Months of work and input from a broad cross-section of local government service providers have resulted in recommendations that could save both the province and municipalities an estimated \$68 million and create administrative efficiencies, yet the government has completely avoided committing to any next steps. The time for study is over. The Association of Municipalities of Ontario insists that the province unveil a plan for consideration and implementation of the recommendations of the Pilkey task force.

**Mr Mickle:** I'll summarize the last three points because I think you want to have a bit of time for questions and answers. We would like to indicate that control of police budgets is very important to municipalities. The Association of Municipalities of Ontario requests that the provincial government honour its legally binding commitments under the social contract and implement the necessary amendments to the Police Services Act to provide municipalities with a greater degree of control over budgeting for police services while providing for adequate police services.

Review of collective bargaining and interest arbitration: The Association of Municipalities of Ontario requests that the government immediately honour its legally binding commitment under the municipal sector framework agreement under the social contract and conduct a review of collective bargaining and interest arbitration in the municipal sector.

We would urge that the government unveil the recommendations of the Fair Tax Commission, and we strongly urge the government to examine carefully those recommendations of the Fair Tax Commission and unveil its plans for this report, specifically as it relates to the reform of education funding, property tax reform and assessment.

In conclusion, the next few years will be a time of reckoning for the public sector. The era when more money and new programs represented the answer to every problem is long gone. The time for change has come. In 1995 we are looking to the government to honour the commitments it has made and to advance a much-needed agenda for change.

Again, municipalities are not asking for anything new; municipalities are simply asking the province to deliver what it promised. It is apparent that now, more than ever, governments at all levels need to work together in a renewed attitude of partnership to effectively and efficiently meet the needs of our common taxpayer.

**The Chair:** Thank you very much. We have about three minutes per caucus. We'll start with Mr Phillips.

**Mr Phillips:** Actually, your last two paragraphs are platform material. I totally agree with that, that all levels of government are going to have to work together, with the common taxpayer in mind. Just so we get kind of an idea, I realize there's a lot of change involved in here in terms of things that have to happen, but in terms of what you would find acceptable from the provincial government in terms of funding to the municipalities, the message I get here is that what you're looking for is a longer-term commitment, some stability over more than just a one-year period. Am I interpreting you right to say that you're not looking for more money from the provincial government but that the municipalities could live with their current level of funding from the province? Just as a matter of detail, is that with or without inflation?

**Mr Mickie:** I think one of the things we're really saying here and to answer your question about more money, no, we're not asking for more money at the present time. We believe that there has been set up under the sectoral agreement certain agreements with the government. Signatures have been put to documents which have indicated certain things need to happen to create the efficiencies, to prevent the duplication, to allow us to develop programs within our own municipalities that can save us money.

The Pilkey task force had 123 recommendations. It happened to sit on that particular task force, and there are applications of that particular document that if put in place would save municipalities money; about \$68 million that can be saved, both at the provincial and municipal level. Why aren't they in place? Those are the things that are going to help us to go forward in dealing with the less money that is available to municipalities from the provincial government.

**Mr Phillips:** Just in terms of our recommendation to the Minister of Finance, "holding the line" are words you use on unconditional transfers. That's your recommendation to us and essentially, if the municipalities were to see the same level of funding next year as they got this year—I realize it may not be allocated yet exactly properly—that would be something the municipalities would say they find acceptable. Is that a fair statement?

**Mr Croome:** I think if I could just state that if the funding remained the same and the downloading stopped we could probably live with the funding.

**Mr Phillips:** That's helpful, and I agree with that. I don't think any one government has been immune from doing that in the past. I think it's just a matter of have we learned our lessons or not.

**Mr Mickie:** If I could respond for just one second, I think it's very critical that what we've asked for in changes come about, because without those changes we're in a bad situation. Those changes have been agreed to and I think they should be honoured.

I'm sorry, sir.

**Mr David Johnson:** That's fine. It's your opportunity to have your say, thank heavens, and I congratulate AMO for its work over the years.

Tell me if I'm wrong, but I think what AMO is saying is that whereas this—I guess the description is that municipalities are the creatures of the province. In reality what you're asking for is to be treated more like a partner in the sense of decision-making. One sure formula for higher taxes is to have one level of government decree what has to be done and then transfer the cost on to another level of government, whether it's health services, as we heard this morning, mandated health services; whether it's a provincial arbitrator who is setting a standard beyond what the municipalities can afford, for example, in police or fire services; whether it's Bill 120 which mandates basement apartments which municipalities have to inspect; perhaps Bill 163 which is mandating an update to official plans across the province of Ontario every five years, and guess who's going to pick up the tab for that downloading on to the municipality. It goes on and on.

My sense is the municipalities are simply asking to be involved in the process, in the decision-making, and have some input. Would you react to that?

**Mr Mickie:** You're absolutely correct in what your assessment is. AMO at the present time, as you're probably well aware, has embarked upon a new document which we call a charter—whether that's the right word or not—but really we're looking for a partnership or a role and function of municipalities within the province, a clear definition of what our responsibilities are. I think if we could get that it would be a long way in putting municipalities not as creatures of the province, but giving municipalities some way of dealing with the problems which they're most familiar with, the councils, within their own municipalities.

**Mr David Johnson:** Municipalities have a great deal of experience. As a matter of fact, municipalities remind the province of this. Any poll that's ever been taken shows that the people respect the municipal level of government far beyond respect for any other level of government, including provincial or federal; there's no question about that.

1530

In Metro Toronto the police funding is about 95%, if not more, out of the municipal taxpayers' pocket, and yet the province has the majority on the police commission. Roads: You're not allowed to differentiate, so much for maintenance, so much for capital, and you haven't got the flexibility to deal with that. There's just a basic mistrust



there that somehow you might not allocate the money properly.

**Mr Sutherland:** Let me say that the Ministry of Transportation has indicated that it wants to have its announcement out by the end of February on road subsidies.

The supplementary assessments: Municipalities are usually the beneficiaries of them in that supplementary assessments usually end up with increased assessment for the municipality. So there is some benefit there as well.

I represent the riding of Oxford. January 1 marked the 20th anniversary of the restructuring of the county of Oxford—as far as I'm aware the only significant restructuring of any county in the province in that period. We hear a lot of talk about the number of school boards. There are under 200 school boards. I hear municipal politicians complain that there's too many school boards, yet there are over 800 municipalities in the province of Ontario. There are some municipalities which rely on the province for more than 50% of their operating costs. My question really to you is, if there are more municipalities than school boards and we think there are too many school boards, are there too many municipalities and what should people be doing about it?

**Mr Mickel:** I think you're going to find some rationalization over a period of time. One of the first things you could do as a government is to give us the tools that we need to sort out our own problems. We don't have those, and I must say that without that sort of opportunity to adjust ourselves without some pressure coming down on top that "You can't do it this way; you've got to do it this way," I don't know how you're going to get that done in an amicable sort of fashion. I know in my own municipality we're trying to work with our communities around us because we are forced to do so. But we come to certain boundary adjustments, we've got to go through MMA to even deal with that. Sometimes that could be done in a very happy sort of way if we weren't put in a position of having to come hat in hand, if I might put it that way, to the province to get our way sorted out in our own area.

**Mr Sutherland:** The county of Oxford restructuring was really a local initiative. It was in response to some of the imposition of regional planning, but they did a local process. They came up with that and they went from over 20 municipalities down to eight. Today the smallest municipality in Oxford is over 5,000 people and I know we have a lot of other small municipalities, some that, as I say, are relying on more than 50% provincial funding for their operational budget. I guess my question is, if a municipality is at that stage, is it still viable as an independent municipality?

**Mr Mickel:** In some cases I would say yes. I think you need to ask the people in that municipality if that government is doing the job for them. I would suspect that because they are so accessible to their constituents they are doing a job for them and I think they would be supported.

But, having said that, I still come back: Unless we have the tools which we've suggested as part in here and in part in our desire that we'll be coming forward with

the bill of rights, or whatever you want to call it, for municipalities to have them sort out their future role and function, I think it's going to be very difficult to do things that you want to do, because at the present time we are only looked upon as creatures of the province. I say that in due respect—

**Mr Sutherland:** No, I know what you mean.

**Mr Mickel:** —because it's been that way for a long period of time. As creatures of the province I must say that you, as parents to us, normally should be looking after us under that particular scenario. I think we've grown up enough to look after ourselves. Just give us the opportunity to do so in some type of legislation that will allow us to become more responsive to our needs in our community.

**The Chair:** On that note, I thank the Association of Municipalities of Ontario for making its presentation before the committee this afternoon.

#### ONTARIO ENGLISH CATHOLIC TEACHERS' ASSOCIATION

**The Chair:** The next presentation this afternoon is by the Ontario English Catholic Teachers' Association.

**Mr Claire Ross:** My name is Claire Ross. I'm president of OECTA.

**Ms Marilies Rettig:** My name is Marilies Rettig, first vice-president, OECTA.

**Mr James Carey:** I'm James Carey, the general secretary.

**Mr Greg Pollock:** Greg Pollock, executive assistant, government relations.

**Mr Ross:** Thank you, members of the committee. We wish to speak to you about a number of issues with respect to education in general and with respect to Catholic schools in particular. We do wish to look at with you some of the recommendations of the Royal Commission on Learning. We want to look at the state and situation of funding with respect to separate schools in Ontario, which is a matter that I think many of you have already heard us speak about before, and we will deal with the issue of confederated school boards as it has been raised before this group by a previous presentation.

I think most of you are aware of the comment that has been made across the province relative to the Royal Commission on Learning. By and large, this report has received widespread support and endorsement by all within the public community of this province as pointing to the future and offering certain significant reforms with respect to change.

One of the components of change defined as essential within that report are those sections which deal with the inclusion of new technologies in the schools. One of the things I believe this committee has to be aware of is the fact that when we speak of the future of education, we really speak of the future of our children and the future and economic wellbeing of Ontario. It's not going to happen simply because we suggest that certain things should happen; it's only going to happen if we put in place the means to realize certain specific goals and objectives.

I think all of you are aware that we're into a new kind

of world, a world of sophisticated, accelerating uses of new technologies, requirements of flexibility and adaptability on the part of our students, and that most of the jobs as we move into the 21st century are going to be significantly linked to skills related to new technologies and the creative and adaptive use of these technologies. In making the recommendations, we would offer that the royal commission has not only in a very insightful way defined certain significant adjustments that have to be made in the schools, but has pointed the course, if you like, for the essential wellbeing of the economic future of this province.

On behalf of the separate school teachers with respect to our schools and our system, we're here to suggest to you that as you determine allocations relative to educational budgets and so on, you're going to have to be very cognizant of the need to move an educational system which is significantly rooted in the mindset and practices of previous times and centuries, and position the system so that it will be able to educate our students not for grandpa's day and grandma's day but for their world and their future, which is radically different from ours.

I'm here to suggest very strongly to you that to achieve those kinds of goals and objectives is going to require on the part of all of us a remaking of our school system that the Minister of Education has already spoken about at length in the last number of days, and certainly the members of my federation are committed to the kind of reform and change that will give to our students the hope and promise of their tomorrow.

There is no question that as we move to include the platform of the new technologies, we're going to be looking at some expensive propositions. As expensive as it may be, it's going to be far more expensive if we abandon and simply put on the shelf the recommendations that are before us.

We recognize also that the inclusion of these technologies will require new kinds of partnerships, creative kinds of partnerships with business and industry, that will require us to reach out into our communities, a re-education of our teachers. As we look at what is occurring in these areas, we are making a very strong plea to each of you this afternoon to recognize that saying something should happen will not make it happen. We are going to have to rethink and remake and allocate and provide in ways that will make meaningful the goals and aspirations of those kinds of changes which will invite change, allow the world, if you like, to come into our classrooms, allow us to simulate and to bridge and to give our students the mindset for the 21st century.

1540

I want to also deal with the issue of funding for separate schools. I'm not going to give you a long dissertation on the realities of what is happening to us under the social contract and the expenditure control program. I think most of you are aware that those who have less have been hit and hurt the most. That's always the way it is, and we recognize it. Also, I'm here on behalf of our students to make a simple statement to you: that the only resource we have in this province is our children, and these children belong to a common public

system of education. Without question, the Fair Tax Commission and the royal commission have repeatedly echoed the theme of equity. All of us understand what equity is. We know its meanings and we know its privations and we know its wants. Certainly, within the separate school system we have lived on the edge for long numbers of years. I don't have to give you a description of what happened last spring in the York separate board and the problems we were faced with there. Many of our separate boards now are literally queuing up to go bankrupt, and that's their sad situation because of the nature of the tax situation within the province of Ontario. Most of the assessment-poor boards, as noted in the royal commission, are separate school boards. We make no apology for that, that's our reality, but at some point in time this must change given the nature of our system, given its acceptance, given its historical and constitutional rights.

I'm speaking to you with respect to the kind of budget allocations that are being considered this year, knowing that in the last number of years our systems have been literally stripped to the bone in terms of all resource personnel and that we operate with very high pupil-teacher ratios, we have no resource people to support programming and we operate quite literally with the very minimum. Despite that, I believe we offer a quality of education which is second to none.

I'm going to speak briefly on an issue that has been raised before this committee, which is the issue of confederated school boards. First of all, let me make the comment that this whole idea of a confederated school board is absolutely offensive to Roman Catholics in the province of Ontario. It is not being advanced to enhance or to support our rights at all. On the contrary, it is seen by all of us who represent the separate school system as an attack to put in place mechanisms that literally would erode and see to, if you like, the removal or the elimination of those rights that were given to this significant portion of the population more than 100 years ago.

We would note that in a previous brief the statement was made that Ontario has chosen to support two publicly funded systems of education. Nothing is further from the truth; we have two publicly funded systems of education as a matter of constitutional right, one having no greater preference or privilege than the other. I believe the courts have spoken eloquently with respect to these issues.

I would note, and I think this is the first time OECTA has ever made these comments, that when one begins to compare the two systems, one can look at the poverty of ours or one can argue about the excesses in the other, quite frankly, and we note some where certain assessment-rich school boards have hundreds of teachers above a contract PTR which is dramatically enriched in comparison to ours.

I put before you the argument, are such excesses justified when in point of fact we're able to show that in the quality of education we're delivering, at least as determined by certain provincial tests that have been applied, we are second to none? What we're saying is, what could we do if we had some additional support and assistance?



In concluding these very brief comments, we simply note this in response to the kinds of comments and criticisms that have been made with respect to our system. But on behalf of the separate school teachers and on behalf of our students we simply ask you to begin to recognize that for those boards that are assessment-poor, and some of them are public as well as Catholic, the time to begin to make the adjustments, to make real the dream and goal of equity, is now, because now is the time when these kids are in our schools. It is their future that is being given to them, and it's our very, very strong belief that they should be given no less than any other students within the common system of education.

Having made these brief remarks, we're prepared to accept your questions.

**The Chair:** We have somewhat more than five minutes per caucus. We'll start with—Mr Carr.

**Mr Carr:** I think it's us. I didn't know whether you didn't know my name or you were thinking. I've served many years with him now; I guess he does know my name.

Thank you very much for a fine presentation, as usual. There are a lot of things I want to get into. You touched on the royal commission and the funding issue, and I don't know which to tackle first. Maybe some of the commission's recommendations we could touch on fairly quickly, because there isn't much time. Which ones do you agree with and which ones do you disagree with? Really quickly, if you could. The report's only this thick, I know. Obviously, we're talking about the major ones, those that are most important to you that you agree with and those you don't; otherwise, we'll be here for five hours.

**Mr Ross:** It's a very personal question. The commission's 167 recommendations present an integrated vision of a future world in terms of education for our students.

We would agree very strongly, certainly, with those that advocate the implementation of the new technologies. That is the real sleeper in the report. Most people don't understand that the paradigm shift in education will be the inclusion and the use of this new platform on which we will fashion whole new modes of program delivery and communicate to kids the skills of the 21st century.

But we also are very supportive of most of the recommendations of this royal commission. I would say this to you, that the teachers of our association are certainly very open to moving into dialogue, because we don't believe that the kind of school system we have fashioned, which is the finest that has ever been created, literally on the face of the earth, is any longer adequate, in the sense that, not that there are deficiencies within the system, but the plain fact is that the world has changed and we must change.

**Mr Carr:** Let me help a little to narrow it down. I probably should have done that at the beginning. Teachers' college, accreditation of teachers, standardized tests, and three-year-olds in the school: That's four. How do you feel on those four issues?

**Mr Ross:** Let me deal with a couple now and I'll have Marilies deal with the others.

**Teachers' college:** We are in favour in principle. We are open to dialogue. We wish to reclaim our professionalism. We wish to show evidently to the public the meaning and nature of professionalism as it would be defined by the teachers of this province.

With respect to recertification, we're very unhappy that the minister has chosen to articulate, if you like, some sort of permanent probation for the teachers of this province. Certainly it is not called for in other profession. We believe it is a very negative impediment to the realization of the minister's goal of a college of teachers.

Marilies will comment on the early school and standardized testing.

**1550**

**Ms Rettig:** As to the school readiness program, the early childhood education program, one cannot deny the research findings that attribute positive effects of the school readiness program, and certainly that's been seen in France in the various programs they have. We want to have some input and further dialogue in expressing our concerns in this area: facilities and the lack thereof for accommodating these children, funding and the lack of funding for programs that we currently have within our system and the extension of funding that would have to be realized with the implementation of such programs, and finally, looking very carefully at the staffing of these programs and ensuring that we continue to have qualified teachers at work within the entire realm of the education system we provide.

With respect to standardized testing, there are three components to testing that are absolutely critical: testing to ensure the wellbeing of the student and to ensure that we are well versed in how the student is progressing throughout his or her educational career; secondly, testing to ensure that we continue to communicate with parents on the progress of their particular child throughout the school system; and finally, for the greater community at large. Currently, when looking at testing and the current dialogue with respect to assessment, be it standardized tests or testing at certain grades, the discussion tends to focus almost exclusively at the general public and accountability within the system. The greatest weakness inherent in that is that we lose the central focus, which should always remain with the student.

**Mr Carr:** One last question on the social contract; I've mentioned this before. The minister sat in that chair and said the money isn't coming back in the system. Many of your members have been rolled back and frozen and so on. What is your membership expecting at the end of the social contract, and where do you see the money coming to pay for any increases to their wages?

**Mr Ross:** One would like to have the answers to those questions. Certainly the membership in OECA will not have had a salary increase for five years. I suppose that would be fine if everything else in the world remained permanent, but unfortunately it doesn't.

The major problem we're facing and the threat facing the province of Ontario which could potentially destabilize the educational system is the increment issue—I think you people are aware of that—and it's

been variously handled between assessment-rich and assessment-poor. It is a statement of injustice of such a profound nature. When one recognizes that many of our younger teachers are going to lose up to \$90,000 per person, you can understand the kind of actions that are going to flow, the anger and the bitterness between teacher groups and boards across this province, and also directed against the government.

If I could make a plea on behalf of anyone, somehow we must solve that problem. If we don't, we're going to reap the whirlwind of something which has been so profoundly ill conceived that if one set out to destroy the system, one could not have come up with a better device.

**Mrs Haslam:** Increment seems to be a big issue with teachers. I often say I wonder if it's time to re-evaluate that whole grid system and whether it was time, in this context of the changes, to re-evaluate how a teacher is hired, how much she is paid versus someone at the top of your grid. I just pass that on because I have an opinion on the grid system, period.

I wanted to ask you a question about confederated school boards. You seem quite adamant against confederated school boards. When the group came forward with confederated school boards as a suggestion, I asked them questions on it because I wanted to understand it a lot more.

I end up talking in a balanced way with teachers and with groups that come in. On one side, I agree that you have the constitutional right to a Catholic education and I have argued for that when I have someone come and say: "We only want one school system. Why do we have two? We only need one school system, and we should do away with that duality." I always say, "It's a constitutional right and it has to be protected, and I don't think you'll ever see that."

On the other hand, I can see that there are economies in amalgamation. In my area, a confederated board would go a little farther into the amalgamation than I may want to look at, but in my board, the Roman Catholic separate school board director has said there's no such thing as a Catholic pencil, so therefore the economies we can find in joint purchasing, in sharing of facilities—in my area, we have the schools joined by a row of shared classrooms. We share the facilities of the library with the city; the city can come in and share those facilities. We look at shared recreational facilities and shared transportation costs and shared purchasing of Circular 14 and things like that. There are ways that you can find some economies. Is that where you would rather be travelling than the confederated school board, and what are the differences between those two entities?

**Mr Ross:** We're travelling that road now. There's no question about that.

**Mrs Haslam:** But not far enough, from what I hear from the ministry. When there are 54 areas of things that you can work together on and maybe only 10 are being worked on, obviously there are other areas that have to be looked at.

**Mr Ross:** Let me answer your question, possibly improperly, with a question, but there is an assumption

that somehow there can be these enormous economies and that somehow they're going to flow from this kind of relationship.

**Mrs Haslam:** Are you talking about confederated boards now?

**Mr Ross:** Confederated school boards. Let's just talk about economies of scale. When one looks at the situation, for instance, here in Metro, if the Metro public board were operating under the same economies as the Metro separate school board, they would be saving the taxpayers per year, at the secondary level only, \$253.4 million. Now, we're not doing too bad in terms of economies when you—

**Mrs Haslam:** But there's still a duality in the system where you look at administration, where you look at transportation costs, where you look at purchasing. I'm not talking Metro Toronto, to be perfectly honest with you.

**Mr Ross:** No, I know you're not.

**Mrs Haslam:** I'm talking a small, rural area where there have to be economies or the taxpayers are going to be upset at the amount of expenditure in the duality they see out there, and so we have found economies. Cannot that be found in the systems, or is the confederated board the answer?

**Mr Ross:** No, the confederated board is not the answer, because a confederated board is designed to impose itself upon the constitutional rights and stability of the smaller of the two systems. There's no question about that.

The other thing you're suggesting, relative to the kind of sharing, we totally support and we endorse. Much of that is going on, more of it can happen, and I don't think you will have a problem with either this federation or the separate school boards with respect to that.

But I certainly want to leave all of you with the impression that if you want to find the paradigm of economies, one need look no further than the separate boards. That has been the essence of our existence for so long that it has almost become a part of our essential being. If you look at the cost relationships between public and separate boards, they're borne out in every instance, and if you take a look at Metro, the numbers are staggering.

**Mr Phillips:** Just a comment on the confederated board, and I hear the depth of your feeling on it. Of all the areas where we're going to want to put our collective time and energy in the future, I think this would not be one of them. Having said that, I do think it's in all of our best interests to really accelerate the level of cooperation and coordination. There is no doubt that if all of us who are involved in education don't demonstrate to the public that we are relentless about savings, the total system struggles and suffers. But I hear you very clearly on the confederated board, because I think it's rather fundamental to what you earned or won 125 years ago.

1600

I wanted to follow up on the social contract issue, just so we have an idea of what the implications are coming out of it. I know your major concern is the teachers who



have not progressed on the grid. Is the expectation, apart from that, consistent with the Minister of Finance's expectation, that is, "Listen, we're into a period of restraint forever now and the tap is not going to turn on April 1, 1996," that we're all going to have to find a way to operate within a very limited resource allocation? Is that the expectation, apart from the grid situation?

**Mr Ross:** Well, obviously the downsizings as defined by the social contract are permanent. We recognize staffing and so on with respect to that. However, the thought that these teachers are frozen on the grid, with that experience lost—and it was this affiliate that returned first and effected the sector framework agreement. One of the reasons we did so was the fact that it would expire in March 1996, and there is no question that on its expiration, with respect to the increment, that issue will be attacked vigorously by all of us, not only in terms of arbitration but, if necessary, in terms of the use of sanctions, and that's something I don't think the people of this province want to see happen, given the profound injustice.

I would also advise the committee here that in terms of the dollars that were taken with respect to those kinds of phrases, none of them were ever costed as revenue by this government. It was simply taken gratis and we paid to the targets as defined, but not using that as any part of the claim.

**Mr Phillips:** I wouldn't mind getting your thoughts on the pension issue, because one of my concerns has been that the province has taken a three-year holiday from making any payments against the unfunded liability in the teachers' pension and also in the public sector pension. So we will go three years with zero payment and then suddenly it will kick in at \$600 million a year.

The teachers' groups approved that, agreed to that, as part of the social contract discussions. Were the teachers' groups indicating any concern about that, however, and should we be concerned about that?

**Mr Ross:** As a government, you have to be concerned about any liability which is accruing, just as I would be when I was treasurer of OEFTA. We watch very carefully. Certain arrangements unquestionably have been made and obviously, from the teachers' point of view, we're simply concerned that the dollars are going to be paid relative to the agreements which are in place, you see. But from your perspective, this probably is perceived on your part as a mechanism of limiting the deficit status at the end of the year.

**Mr Phillips:** Yes. Thank you very much.

**The Chair:** I thank the Ontario English Catholic Teachers' Association for its presentation.

BANK OF MONTREAL

**The Chair:** The next presentation this afternoon is by the Bank of Montreal. The Bank of Montreal is a forecaster coming before this committee and it will have 45 minutes for its presentation.

**Mr Tim O'Neill:** My name is Tim O'Neill. I am the executive vice-president and chief economist at the Bank of Montreal. This is David Hall, one of our economists in the economics department.

Thank you for the invitation to provide our thoughts on the budget process. I am not sure that the comments we are going to make are going to be a huge surprise to anybody. But none the less, surprises sometimes happen.

What I'd like to do is start by putting this in a broader context: Do a quick run through our outlook for the economy, first of Canada, then of Ontario, a quick look at the fiscal situation in Ontario and then recommendations regarding the budget-setting process for this year.

We're looking at growth in Canada which will remain reasonably strong into 1995, slowing from the 4.9% we saw in 1994. We've had, as you know, some modest increase in interest rates, if I can understate it, and that certainly is having an impact on dampening economic activity here. But we have also seen, or will expect to see, with the slowing of growth in the United States this year, some decline in the rate at which our exports have been growing. For example, we saw them in 1994 grow by 17%, which was quite a bit more than most people had anticipated, and that almost surely will flow in 1995.

When looking at 1995, some basic assumptions:

(1) As I've said, US growth will slow. I think that will become increasingly evident over the next several months. We're anticipating though that the Federal Reserve will still increase at least one more time the federal funds rate which will raise short-term interest rates in the United States and probably have a spillover effect into Canada.

(2) We're expecting most Canadian governments to address the fiscal imbalances that exist.

(3) It's our working assumption at least that in the province of Quebec there will be a rejection of separation in the referendum, whenever that's held, assuming it's some time in 1995.

We're looking at growth slowing then in Canada from a near 5% to something in the order of 3.5% for this year. You've got the weakening US economy, still very high real interest rates by any historical measures in Canada, some strengthening as we get into the second half of the year in the Canadian dollar, fairly modest wage growth, which means that it limits income growth and consumption spending, and probably across the board more restrictive fiscal policies.

Last year we saw the public sector influence growth in the Canadian economy in a negative way, about minus 2%, and we're expecting to see not quite that sizeable a negative impact but it will be there this year.

The unemployment rate will decline, probably more gradually than we saw in the past year where it came down almost two full percentage points; more likely to be fairly modest. First of all, we'll see some people coming into the labour market. We've already seen some impact in the most recent month of people coming back looking for work who had been unable to find it before. That, combined with the more modest growth, will mean that the unemployment rate will come down more slowly.

Inflation will still not be a problem in Canada. It will remain under 2% for this year and probably next year as well. If you take out the tobacco tax cuts anomaly, we were well under 2% in 1994. So that will be three years

in a row at least at those rates. Compared to our neighbour, we're looking at four years running and six of the last eight in which we've had lower inflation rates in Canada. That has relevance to a couple of comments later on.

We saw considerable increased pressure on interest rates in Canada. A substantial portion of that pressure, despite the immediate impact or approximate impact of what was happening in the US, the fundamental influence we feel was and will continue to be the fiscal problems in Canada. Interest rates probably will fall in Canada, but the declines will be somewhat more modest if we get some more tightening by the Federal Reserve in the US. There will be obviously some turbulence in financial markets associated with the referendum vote.

We'd expect to see rates start to come down in the second half of the year. The projections specifically are that we'll see short-term rates, for example three-month treasury bills, declining to about 6.5% by the end of this year and to under 6% by the end of 1996; long-term rates coming down close to 8% by the end of this year and close to 7% by the end of 1996. The Canadian dollar strengthens somewhat in our forecast through this year.

If I can turn to Ontario, growth will be very strong in Ontario this year as it was last. We're looking at a rate of about 4.5% in 1995. The economy here has benefited from the strong growth in the US, the weakening in the Canadian dollar and the benefits of the restructuring that went on particularly in the manufacturing sector in Ontario during the recession and even before that. You're looking then at an economy which will still have fairly strong export growth. We expect that in particular the auto sector will move towards full capacity and, having done that, will create a significant boost in that sector. So even though you've got some appreciation in the Canadian dollar and some weakening in the US economy, that will still be the strong sector in the Ontario economy for this year. You'll still be, as you have been—as we have been—for a long time, a strongly export-oriented economy, and I think we'll see in this year some broadening of that recovery into the domestic side of the Ontario economy.

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Put this in context now of the fiscal situation. Ontario's had one of the strongest growth rates in the country and will probably have the strongest growth rate in 1995. That means increased revenues, it means a lower rate of increase in social assistance payments, yet this province has one of the worst fiscal situations in the country.

If you look at the graph on the following page—this is following page 3, if you're following the document—you can see that all the provinces made efforts to reduce deficits. Ontario's progress has been, by comparison to many other provinces, quite slow. We've got two provinces that are likely to balance their budgets in this next fiscal year. Four others are going to be close. Two key provinces are not going to be close, in our expectation, Ontario and Quebec, and the two largest provinces.

One of the critical problems here is that you're looking at an issue, among other things, of investor confidence. Deficits in a given year aren't a key problem. It's deficits

accumulated year after year after year, even in a strong recovery, that are a critical problem, because what you're looking at is a debt-to-GDP, your debt relative to ability to repay it, that continues to increase. It's more than doubled since the late 1980s. We're looking at a debt-to-GDP in the current fiscal year around 30%, just above that. That is not going to be sustainable over the long term.

If the current plan for deficit reduction set out in last year's budget is carried out, we're still looking at a debt-to-GDP that will rise by the end of next year. That's occurring in the context of very strong economic growth in the province, in fact strong growth for a total of two and a half years, and despite the fact you've got six other provinces that have all lowered or will have lowered their debt-to-GDP ratios by the end of the fiscal year 1995-96. When that happens in a strong growth environment, you've got a problem, and a serious one. And it's a structural problem, not a cyclical problem alone.

Ontario, like other provinces, has faced the difficulties of reduced transfers from the federal government, and that pressure is going to be there in the future, whether it's this year or this year and next year and years beyond that. Rising costs for social assistance, the restructuring that everybody's gone through: Those are not insignificant factors but they are a reality that everybody in the country, every province, every business, every household has had to in one way or another deal with and will continue to have to deal with. You can't hope that it'll go away. It won't.

Before I get to recommendations, one final point on this: This is an important economy and an important budget in the scheme of things in Canada. This is the largest provincial economy. It means that investors, market analysts, take a much closer look at Ontario's budget than they would at, for example, Saskatchewan's budget or PEI's budget or Nova Scotia's budget. It has a large impact on the total debt in the country and it has an impact on the evaluation of where that debt is going and what kind of impact it will have.

Four keys to a credible fiscal policy: First and foremost, did you at least do what you said you were going to do? Did you meet your own targets? Second, are you displaying both your expectations and your results in a transparent and consistent way so that everybody understands exactly what it is you're trying to achieve and whether or not you've been able to do that? Third, if you've got, as I've suggested Ontario has, a fundamental structural problem, is there a structural solution? Finally, if there are unexpected events, as there almost inevitably will be, particularly if those are negative ones, is there a plan, is there a commitment, in particular, to adjust to get back on track if you've been pushed off track?

Six recommendations:

First of all, at an absolute minimum, at least set credible targets for deficit reduction and clearly demonstrate a resolve to meet those. That, unfortunately, has not been a commitment in this as in other provinces. That environment is changing now. The Bank of Canada, whatever one may think of the specifics of the policy pursued and its impact, has now established not just



domestic but worldwide credibility for its anti-inflation policy. That was hard won, at a very high cost in some cases, but the credibility is there because they committed to meeting targets and did what was necessary to achieve them.

The federal government at least appears to be on the verge of taking the steps necessary to achieve credibility on the fiscal policy side at the national level. Other provincial governments have put in place deficit reduction plans that they've met or exceeded. They're establishing credibility. It's an absolutely essential part of this whole process.

We're suggesting that, at a minimum, the upcoming budget should project a deficit of no more than \$6.5 billion. That's the figure established in last year's budget. At least meet that target. That's the starting point for building credibility; it's not the end point.

The second problem is the issue of transparency. I'm not an accountant. I don't want to get into the minutiae of debate over whose practices for accounting are the appropriate ones. Let me point out that when there is a public debate over whether it's the Provincial Auditor or the Finance minister who has the right approach to establishing how budgets and revenues and expenditures are going to be measured, that's a problem, that's a real problem, because what it does is create the impression that what the government is attempting to do is use creative accounting to reduce its deficit for public consumption purposes when in fact nothing real has happened. At least one simple way out of that is to adopt the accounting practices of an individual or an office, an institution, that would be seen as having an independent view, in this case the Provincial Auditor.

It would be, I think, valuable to see a more ambitious plan than meeting simply the target already set. The government has to set a goal of, at a minimum, stabilizing the debt-to-GDP ratio. I don't think that's an unduly ambitious project for a government to undertake. As I've suggested, six provinces will not only stabilize but actually lower their debt-to-GDP ratios in 1995-96. You'd need a deficit of about just under \$5.5 billion to do that in Ontario.

Even more ambitious, but still valuable, I think—by the way, these recommendations are very much of a type that we have made as well to the federal government—aim to balance the budget and do it a year earlier than planned. At least there is a specific year in mind, something that we have urged but haven't yet heard from the federal government about, a choice of a date for balancing a budget. The problem here is not just one of credibility. The problem here is that if you're looking at a national, and North American, economy that is going to be slowing, if it slows, for example, much more quickly than most of us anticipate or more significantly than most of us anticipate, you've got a real problem if you haven't got the fiscal situation in hand, because suddenly you're faced with growth in revenue slowing dramatically, expenditures starting to ramp up and instead of any room to manoeuvre to at least stabilize debt-to-GDP, it starts to get out of hand and you're now starting at a higher platform than you did in the last recession.

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I think there's a need to cooperate with the federal government and the other provinces on social program reform. I don't buy the argument that the reforms suggested, even by the federal government or certainly some of those that have been proposed by other analysts, are going to destroy the social safety net in Canada. The problem is that the system is already damaged. Some of our social programs are causing more problems than they're solving. I think what we're really looking at is how to best rebuild the system, not tear it down.

The more serious concern that ties specifically to the debt-deficit is the buildup of debt and the attendant uncertainty that goes with that. The perception that this is not sustainable is the more serious threat to the existence of that social security system. I would argue that getting the fiscal house in order is the first step to making sure that you've got a viable system that's going to be sustained through all business cycles, that can sustain the support for those who most need it and do it in the most cost-effective way.

The issue of who is responsible for what, apart from the dollars issue, let me put it in very simplistic terms. As a taxpayer—and I suspect I would reflect most views—the issue is far less important who does it but rather how well it's done, how effectively it's done, with my dollars.

Finally, I would urge the Ontario government to concentrate less on itself trying to create jobs and more on ensuring that the environment exists for job creation by the private sector. I think it's fair to say that for most analysts the observation that all levels of government have had a pretty dismal record in creating lasting jobs is a fair assessment. A much more effective way to do it is to concentrate on efforts creating a healthy environment for business and job growth.

Let me close by suggesting that Ontario has a lot of economic strengths. I have been a resident of Ontario for 15 months. I spent most of my life working and living in Atlantic Canada. I can recognize a strong economy as well or better than anybody. This one has a lot of advantages, huge advantages: the geographic position, especially with respect to North American trade; a very strong, well-educated, productive workforce; firms at the leading edge of technology; a very strong manufacturing sector; lots of natural resources. The point is that the potential, I think, for the Ontario economy is likely to be blunted, restrained, hampered by a continuing debt-deficit problem.

Deficit reduction in many ways is like other investments: You make the sacrifices today; you enjoy the benefits of that in the future. I think it's clear from the comments that we've made from the presentation that you have in front of you that we feel you've got to give deficit reduction the highest priority in the upcoming budget.

**Mr Sutherland:** Thank you, Mr O'Neill. I hope you're enjoying your time in Ontario. I'm sure the pace is a little more hectic and people aren't quite as friendly as they tend to be in the eastern provinces. I'm sure the cars aren't stopping to let you cross the street as they do out there, and it's always a pleasure to go and visit the

east coast for that reason and their great friendliness.

I appreciate your thoughts and your comment on where the economic forecast is going to be. I wanted to talk about the issue of how Ontario has been impacted versus the other provinces. I guess it's a little difficult to discuss that with someone from the east coast in terms of what they're going through. But when I look at comparison to other areas, there are a couple of things.

The recession clearly, in terms of its job impact, was far greater in Ontario than in many of the other provinces, particularly the western provinces. As a result of that, the cap on transfer payments has impacted Ontario far more than it did a province such as Alberta. So I think with this specific recession there was a far greater impact than maybe some other parts. The east coast situation is obviously much different in comparison to some provinces that are seen as the new nirvanas on how things should be done.

It was interesting to hear that you thought 4.5% this year in economic growth. Did you have any comments on the out-years to 1998 as to what you thought the average might be for Ontario?

**Mr O'Neill:** We haven't done a formal projection, but let me give you—economists don't guess, so best estimates, best projections. We're looking at national growth that'll probably be 3% to 3.5% for the couple of years beyond 1995. There are certain challenges and risks associated with that. It wouldn't be a huge surprise to see Ontario do at least as well as the national average in those couple of years or do about the national average. So 3% to 3.5% I don't think would be an outlandish kind of estimate for those two years.

**Mr Sutherland:** Some of the other economists have talked about what the impact of a significant tax cut would be. As you may know, one of the parties here in Ontario has proposed a significant tax cut as a way of stimulating economic activity. We've heard evidence that the savings rate is low and the personal debt of individuals is rather high and there's some question as to whether a tax cut would automatically stimulate spending activity or people would use that to increase their savings or to pay down some of their personal debt.

I guess the other side of that is in terms of your issues regarding the deficit, as to whether a large, significant tax cut at this time is an appropriate measure with the deficit that we have.

**Mr O'Neill:** Could I deal with your question about the recession and then get to the other two? I don't think there's any question, if you look at the impact of the recession, it is factually true that it was most significant in proportional terms in Ontario.

Two sort of bracketing comments about that: The recovery period in the late 1980s was most pronounced in Ontario. The growth was very, very strong in Ontario. I think as we are now fully into the recovery, it's clear that while, yes, the recession was most substantial in its impact proportionately in Ontario, it's also in the recovery enjoying the strongest growth, I think, on a sustained basis. So that has to be put in context. I think you have to take the whole cycle and look at what it means for

fiscal policy, rather than just a part of it.

As to a tax cut impact, as you know, in the US they're going through a very technical debate about the long-run impact of tax cuts on—I think the term used is “dynamic scoring.” Tax cuts have two kinds of potential impacts that analysts typically like to talk about. One is if you want a demand-side impact where you get some stimulus on the spending from personal income tax cuts and, if it's corporate or business tax cuts, perhaps on investment. Conceptually, there's no problem with making that argument. The size of it is what I think people will debate.

The fact of the matter is that for given levels of savings and personal debt, if you lower the tax rate at the margin, people are going to increase their spending to some extent. The question is, how much? So the size of the stimulus, I think, can legitimately be debated among analysts, and you can find all kinds of interesting models as to how that ought to be forecast. If you wanted, I could drag in about eight different numbers from six economists, so you could have fun looking at those.

The other kind of impact is even more difficult, and this is where the debate is going in on the US. In some sense, fortunately, we haven't gotten into it in Canada, and that is, do you get a behavioural response? For example, does the underground economy begin to dissipate because there's less of an incentive? I think the argument is that there would be some impact there. How big and how long to have an influence is another matter. Would work effort change? Again, yes, I think conceptually the argument is fairly clear.

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The issue always in these things is, how big in actual dollar terms is it going to be? There has been some work done in an international context which suggests that at marginal income tax rates above 50% you're starting to get some significant disincentive impact on work effort and some incentive impact for, if you will, pushing activity into the underground, which suggests that if you can lower it to below 50%, you can get some positive impact from that. That's a multicountry study. The size of the impact, though, varies depending on what jurisdiction you're talking about and also in what kind of economic environment you're talking about that sort of adjustment occurring.

**Mr Phillips:** Just to comment on that and then ask a question, because it will be an interesting debate, I think, if you say deficit reduction is the number one priority. Whether a \$4.5-billion reduction in tax revenue is the best way to achieve that, I think, will be an interesting debate as we head into it. An almost immediate \$4.5-billion reduction in personal income tax revenue, whether that's a signal—maybe I'll ask you the question: How would that be interpreted in your markets, where I think you're saying international investors are quite important and credit rating quite important?

**Mr O'Neill:** I think the issue would be how, as a package, does it look over a period of time. I think that will be true, frankly, for anybody's budget proposals. We were looking at this in the context of how you analyse what the market's going to do in response to a federal



budget—that's the one most immediately at hand. If, for example, in Ontario or at the federal level there were a three- or four-year credible plan, transparently clear as to how you would achieve a result, clear as to what assumptions were being made so that at least people could debate the reality of those assumptions—if the reality is evident enough, it's acceptable. If the approach is credible that you can actually do what you say you can do, then I think the issue would be, is that achievable in the time frame that is set, given the fact that the environment may change very dramatically, unexpectedly and negatively in that time frame?

By and large, the preference would not be necessarily to see a significant revenue decline at the front end, but if there were a large and credibly established payoff farther down the road, I think it's that—it goes back to the issue that we talked about, the structural issue. If there is perceived to be a structural problem, part of which is associated with, among other things, the tax environment, but also part of which is associated with expectations about what the public sector can do in the way of social services and so on—if there's perceived to be a structural problem that isn't addressed, then no amount of nibbling at corners and making modest adjustments is really going to solve that.

There are different structural ways of achieving an ultimate result that is considered desirable. The key is that it has to be credible and it has to do the job as quickly as possible, so it can't just be, "Well, in the first couple of years it'll be bad but the next two years will be wonderful." We've been through the exercise now at the federal level, as I'm sure everybody is aware, for a number of years of hearing: "Next year will be better. Next year will be better. Next year will be better." I think there has to be both an immediate and a long-term payoff. I think on balance that's what the markets would prefer to see, but at a minimum, a long-term payoff.

**Mr Kwinter:** I'd like to refer to your comments about the credibility of the government in meeting its targets and that you call for at least a \$6.5-billion deficit in 1995. In questions that I have presented to ministry officials, they have already admitted that notwithstanding what they say in their budget, when they go to public accounts, where they then have the documents that the auditor will reflect on, they expect that 1994-95 will be at least \$2 billion higher than what they are anticipating; the \$8.3 billion will be somewhere between \$10.5 billion and \$11 billion.

That indicates to me that the \$6.5 billion already, given the type of accounting that the auditor has called for, regardless of what they say in their budget, when they go to public accounts in 1995-96, will be at least \$8.5 billion. How does that sort of square and what is the impact of that going to be on the fiscal situation in Ontario?

**Mr O'Neill:** I don't want to get into a debate over the right accounting practices here. The key point, I think, both for the fiscal health and for the market reaction to an attempt to deal with that fiscal health, because we've had questions and comments about both of those, will be, irrespective of what the starting number is—and the

debates can go on forever about whose accounting procedures ought to be used—that it clearly is moving down, that it's going to continue to move down, and that whatever measure you use, the direction and the size of the movement in that direction are unequivocal and are going to be consistent and sustained.

In some senses, the starting point, the platform from which you jump to dive into the water, if you will, is less important relatively than whether you make the jump and whether you're going to get to the bottom. Presumably, gravity will pull you down in the case of a dive, so that may not be the right analogy.

Let me use a different one. If you've got a snowball rolling down a hill, it's getting larger and it's picking up speed. The key issue is, however we measure the speed and however we measure the size, the job is to stop it from getting larger. The job is to stop it from picking up speed and actually to reverse both of those processes. So whatever point on the hill you think the snowball is and whatever micrometers you use to measure the size, you've got to stop it and start rolling it back up the hill. That's the key point, I think, both for the fiscal health and for the reversal of view in the investor community.

By the way, let me just make a comment. People focus on international investors. The problem isn't international investors. It's every investor, and most of those investors are average Canadians who, through their pension plans and other mechanisms for investment, are making bets about what the future fiscal health of Canada is going to be. If they think that's threatened, they're going to back out faster than anybody in the United States or Japan. So the confidence we're talking about is not on Bay Street, it's not on Wall Street; it's across the board.

**Mr Phillips:** Main Street.

**Mr O'Neill:** In large measure it is on Main Street: Main Street Canada, Main Street other countries.

**Mr David Johnson:** Thank you very much for your presentation today and your comments. Obviously, it's our plan that's being debated here, and although your comments are simply professional and looking at it from the point of view of the professional aspect, I certainly interpret them as being supportive.

We agree with your comments that the plan has to do the job. It has to be credible. It has to do it as quickly as possible. Our approach is, as you've indicated, that it should not focus on the government creating jobs, but it should focus on ensuring that the environment exists so that the private sector can create the jobs. It should involve working with the federal government. There's only one taxpayer, and the important thing to the people of Ontario is that the governments work together to provide the services most effectively.

In terms of looking at both the tax side and the expenditure side, we feel that the expenditures in the province of Ontario, because they've doubled in the last 10 years, well beyond the rate of inflation, well beyond the growth in population, have gotten out of hand. I'm not so sure what you mean by structural changes, but I would view that our expenditures fit into that category and that some structural change needs to take place—not

nibbling at the corners, as you've said. We feel we've gone by that sort of situation and we need to do something of a more structural nature on expenditures over a three-year period, a \$6-billion reduction. We feel that the taxation, which has gone beyond that 50% level—the marginal tax rate is now over 53% and Canada suffers from the highest personal income tax rate of all the G-7 countries when measured as a per cent of GDP. There's another indicator. So we're saying that the personal income tax should be reduced by \$4 billion over three years. I recognize fully that deficit reduction is the key and that the income tax reductions can only take place if the expenditure reductions have taken place.

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We're also looking at the workers' compensation premiums and the employer health tax, particularly for small businesses. I doubt the Bank of Montreal would qualify in that regard, but that again is to set the environment for the private sector. So I believe, as you said, that this will be up to the people of Ontario to determine if this is a credible program, if this is doable. We think it is. We'll see during the election.

Have you done any work with regard to translating GDP growth into revenue for the province of Ontario? Have you ever looked at that aspect?

**Mr O'Neill:** I think that the simple, straightforward answer is we haven't done any direct analysis of that. There are a lot of ways of attempting to do that kind of projection. Obviously, a lot of assumptions in response to an earlier question; I suggested that tax cuts have a multiplicity of impacts that occur over a period of time, and apart from their direct impact on a budget or revenue stream, they have impacts on people's behaviours, spending and labour market behaviour.

The simple answer is, I couldn't give you an analysis of the direct relationship that we would have done between GDP growth and tax revenue growth, but David, do you have—

**Mr David Hall:** I've seen numbers that have ranged generally from about 90% to 110%, being the ratio between nominal GDP growth and government revenues, particularly on the personal income tax side, and there are arguments that we've heard supporting either end of that range. Of course, the high end of the range has to do with the fact that there was some inflation bias built in the tax system as people move into higher tax brackets, that type of thing.

**Mr David Johnson:** To clarify, does that mean if there's a 3% growth in GDP, there'd be a 3% growth in provincial revenues? Is that what you're saying?

**Mr Hall:** No, not necessarily. I'm suggesting that with a range of 0.9 or 1.1, or 90% to 110%—

**Mr David Johnson:** That's almost 1 to 1.

**Mr Hall:** Almost 1 to 1. We've seen, in recovery stages, the ratio being higher and we've seen, of course, in downturns, the ratio being considerably lower.

**Mr David Johnson:** The reason I ask is because we feel—again, nibbling is not going to cut it—that to balance the budget, and our target is to balance both operating and capital, expenditure reductions are going to

be required. Our forecast for growth is conservative, I would say, at 3% over the four-year period. You've said 4.5% this year. I'm not sure what you said for 1996.

**Mr O'Neill:** Probably lower than that in—if I had to make a specific estimate for Ontario, probably—let's pick a number—about 3.5% perhaps and then 3% to 3.5%. I think was the number I gave for the years beyond 1995. So depending on how many of those you take and where you start, something in that range.

**Mr David Johnson:** The number we're using is more conservative because we feel again we have to achieve that target. As you said, it's very essential that you achieve your target. It's no good to take a higher number and not recognize that growth and then not achieve it.

Our plan is to achieve deficit elimination through 3% growth and significant expenditure reductions. The other parties are essentially relying on economic growth, and I just don't think that'll work. I don't know if you have any comment. That's where the starting point—you say the starting point may not be important. It's the fact that you dive in, but if you're starting from a deficit of over \$10 billion and relying on economic growth over the next four years to balance the budget, I can't anticipate how that's going to happen.

**Mr O'Neill:** I want to make clear that I'm not being recruited for an election campaign. In any deficit-cutting exercise—I mean, we've seen experience in two provinces in the west already of very different ways of coming at an issue of how you deal with a deficit-reduction plan. The key is that I think one has to make a start. The way in which it's done will vary from one political philosophy and economic philosophy to another. The way it's done will vary from one set of circumstances from one province to another.

I think our argument has been all along, for federal and provincial governments, that doing it through tax increases is not appropriate, in fact it's counterproductive; that there has to be a substantial rethink of the levels of and types of expenditures that are engaged in in the public sector. In one sense, a simplistic characterization of the structural problem is that we have created in Canada for ourselves, through our governments, expectations that can no longer be fiscally met. That's the structural problem that has to be dealt with. It's not going to be dealt with through simple economic growth in any environment.

There are provinces that have had as good or stronger growth in short periods of time that have depended upon revenue growth as the mechanism for dealing with the deficit, but at some point that isn't going to be the fundamental solution to the problem. Therefore, it has to really be, to a significant degree, in whatever time frame one chooses to do that and do it credibly, focused on containing and reducing expenditures, in our view.

There are various plans and mechanisms for doing that. It doesn't seem to make much of a difference what the partisan stripe of the party in power is. Governments that have been successful in reducing their budget deficits have covered the spectrum from Progressive Conservative to Liberal to NDP. I think the fact of the matter is that fiscal reality is imposing itself, irrespective of ideology or



philosophy. But the focus, at least in this part—I would agree with your comments, and since you're agreeing with me, I'm certainly pleased. There has to be a focus on the expenditure side. That has to be the realistic component of any plan.

If I could make a comment about it, maybe an elaborative comment and a last one, I would have thought that for anybody who is really concerned about the long-term viability of a system of security and support for people who may be or will be at some time in the future economically or in other ways disadvantaged, the surest way to ensure that you've got room to manoeuvre, especially in times like recessions when you're going to be most challenged to deal with those problems, is to deal with the deficit during the strong part of an economy's cycle. During the recovery period is when you have to begin to do that.

In fact, I would argue that if there's any desire to think about innovation in social policy, there's only one way that can be achieved and that's by buying room to deal with it, not this year but in the future, reducing the fiscal problem to a level which allows you to actually consider seriously new—cost-effective, but new—social programs. There isn't any other way to buy that kind of room.

**The Chair:** I'd like to thank the Bank of Montreal for sharing its forecast with us this afternoon.

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#### CP RAIL SYSTEM

**The Chair:** The next presentation this afternoon is by CP Rail System, if representatives would please come forward.

**Mr John Taylor:** Thank you very much, Mr Chairman. My name is John Taylor. I'm in government and industry affairs with CP Rail. Next to me is Gil Mackie. He's executive vice-president for CP Rail. We're both located here in Toronto.

We're here because we believe that railways are vitally important to Ontario and we hope that our brief will be of value to you in your important consultations and to this budget. The brief that's been handed out is a little longer than can be delivered in the time allowed, so I'll be making some remarks from a shortened version. But appended to the brief are what I think are some very interesting graphs and quotes from third parties and I will refer to them as I go through.

Ontario is a major consumer of transportation services. Ontario's policies as a province have important influence on the transportation marketplace.

Our messages here today are straightforward. The first is, the health of the rail transportation industry is as important to the Ontario economy as is the health of the producing industries we are here to serve. Another is that we in the railway industry are doing our part to improve our economic health in Ontario, which has not been very good over the last several years. Third, our goals of improving our health will only be achieved with supportive government policies.

When we got the pre-budget booklet from the province, Ontario on the Job and Looking Ahead, we noted in it there were some positive themes, notably the import-

ance of partnerships and the importance of competitive investment to the economy.

Transportation is an integral part of the marketing chain. The shipper-carrier relationship is a partnership in the truest sense. Timely, cost-effective delivery to the ultimate consumer is basic to Ontario's economic wellbeing.

The competitiveness of the railway industry has been in the spotlight in the last 12 months or so. CP Rail System, with a \$600-million loss in eastern Canada over five years, has found that the sustainability of our operations east of Winnipeg are at risk. The problems we face include, among other things, more rail lines and facilities than shippers or taxpayers can reasonably support.

These are structural issues, not cyclical ones. Fundamental change is required.

Changes must come on each of four fronts, in our view. For our part, the railways, we know what we must do. First, we have to improve the flow of competitive railway investment; second, we must shed the high costs of underused infrastructure; and third, we must achieve greater flexibility in the workplace. But our initiatives will not by themselves ensure the railway's future in Canada. We need action on a fourth front. Significant change in government policies is also needed.

We are seeing some encouraging signals on that front. At the federal level, the Minister of Transport is committed to "a comprehensive and workable rail policy framework" this year. That framework is intended to bring stability to the rail sector and to maintain healthy competition, and we think that's a very positive sign.

We also take some encouragement from the government of Ontario's definition of railway viability. The Minister of Transportation recently made a submission to the task force on CN commercialization, and in it said:

"A viable North American railway...is concerned with generating solid financial results, and providing superior customer service in a safe and environmentally favourable operating framework. Not only must Canadian railways like CN—and like us—"be competitive with North American railways, but they must also be competitive with other modes of transportation."

We agree. We're also pleased to see that the province of Ontario supports improved federal capital cost allowances to foster railway investment. That's needed. But we do not agree with the province's contention in the same brief that Ontario's fuel and property taxes do not materially affect rail cost competitiveness. Fiscal reform is needed, and it's needed at all levels of government.

We've attempted in previous submissions to point out the inequity of tax treatment in Ontario because it restricts us in providing competitive rail infrastructure and services that would benefit all Ontarians. We are disappointed by the lack of action or even acknowledgement that these issues should be addressed, in spite of the objective point of view that many third-party studies have brought to the issues. As mentioned, we've attached a small cross-section of those comments to our brief. They show a Canadian railway tax burden that is widely

recognized as inequitable. It biases shipper choice against rail in favour of trucks, it works against Canadian transportation in favour of US freight carriers, and it distorts choice against a user-pay infrastructure, rail, in favour of facilities funded by public expenditures, the highways. One reality is that Canadian railways pay out a 75% greater portion of their revenues in taxes than do their competitors: US railroads, or trucks on either side of the border. That's covered by chart 2 in the brief. Another reality is that CP Rail System and CN pay more taxes to Ontario than to any other province. That's covered on chart 1.

Changing trade patterns have made those spreads critically important. Our shippers compete in markets no longer defined by national borders and transportation has become North American in scope. Price and service alone are what count, not carrier nationality. The market for freight transportation service is no longer simply a Canadian one; it is a single transportation market defined in continental terms. It is intermodal and multimodal in the broadest sense. Ontario's trade-dependent industries are under pressure for better price, better delivery and better service. They need and demand the same from transportation. Only healthy transportation carriers can make the investments to meet these challenges.

Railway investment is important in keeping Ontario industry competitive, and the need for it is increasing but the means to invest have been decreasing. Railway financial returns have fallen. Even after the recession, earnings are well below the level required to support the kind of investment we need to make.

A major cost and investment issue is excess infrastructure. The National Transportation Act Review Commission viewed it as "staggering" and a major policy challenge. It said, "We see two challenges for governments, both formidable: to rationalize a very large inventory of superfluous infrastructure, and at the same time to stimulate further investment of private capital in priority infrastructure having specific public benefit and competitive advantage for the country."

For CP this dilemma shows up in several ways. For example, CP and CN carry more than 90% of their traffic on only 40% of their lines. The railways' traffic density on average is just slightly better than half that of the major American railroads against which we and our Ontario shipping partners must compete. That's covered on chart 3. The resulting high costs and low utilization mean the current net incomes will not support the level of capital investments needed to ensure a fully competitive railway in the future.

With our capital spending restricted, our focus has been first on basic levels of replacement, and second on new investment geared only to the very highest of priorities. A significant share has been spent in Ontario, though. We've had major expenditures on our Vaughan intermodal terminal, the fleet of double-stacked container cars required to serve it, and our Detroit-Windsor tunnel expansion. These have all been strategically necessary investments we could not afford not to make because we have to maintain our position in intermodal and cross-border trade for our customers.

The same goes for the 900 covered hopper cars from National Steel Car in Hamilton purchased last year. We had to make that investment to hold our ground in bulk transportation.

We've had to address an aging locomotive fleet problem. We've just ordered 80 high-technology locomotives, the first new order of power we have made in six years, but much more capital spending is needed to sustain competitive, reliable railway services in the long term.

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What are the implications of constrained investment for Ontario? One effect is to reduce industry's transportation options, and another is to reduce the government's policy options because a diminished rail presence inevitably leads to more pressure for public spending on highways. There are implications too, obvious ones, for Ontario's railway supplier industries. There's a big difference between holding spending to what must be done and expanding the horizon to what could be done by an industry with the tremendous innovative potential that modern railways can bring.

"Iron highway" is one example. Iron highway is a radically different form of train technology and an entirely new approach to intermodal transportation. It's aimed specifically at high-speed medium-distance movement of standard highway trailers by rail. It can be a real alternative to the highway and busy corridors such as those that we have in southern Ontario. We plan to test iron highway in service between Toronto and Montreal this summer. If it proves out, it will require a huge railway investment to implement on a viable scale, with widespread benefits not just to rail as a business but to the trucking industry that will be the user of the service. For governments also, it would reduce highway investment and maintenance costs and all would benefit from reduced highway congestion and fuel conservation. But it will only happen if we can afford the investment, and there governments do play a part.

The stiff competition we face from US railroads is not just because they have an edge in scale and traffic density but also because of more favourable regulation and taxation. The same goes for our truck competition.

Chart 2 shows clearly that Canada's railway tax structure is not competitive. The Transportation Association of Canada's task force on competitiveness found that Canadian railways pay some 14% of their revenues in taxes; for US railways and Canadian and American trucking it's only 8%. In Ontario, property taxes on our rail roadway are of major concern. The inequity begins with the concept of taxing railway rights of way at all. Highways are exempt from property tax. Neither highway authorities nor road users such as commercial truckers and buses have to cover it. Railways finance and build their own infrastructure and pay property taxes on it entirely from their own resources. Railways maintain their rights of way at their own cost, where other modes of transport don't.

We pay high taxes despite past provincial reviews that have highlighted the inequity of taxing railway rights of way based on assessed values of abutting land. The latest



review, the Fair Tax Commission, observed that railway rights of way are one of the "examples of properties for which conventional assessments do not work."

Today, rail property tax environment is a highly volatile one. Rail right of way was eliminated as a separate property tax class in the province's equalized reassessment program beginning in 1990. That opened the door to a major shift of tax burden on to railway corridors. I'm sure you may recall that Metro Toronto tried in 1992 to impose market value assessment, MVA, on rail rights of way, which would have more than tripled CP Rail's property taxes in Metro. The province disallowed that Metro scheme, but our exposure to massive tax increases has by no means disappeared.

Other municipalities across Ontario continue to reassess without the separate railway class factor. If it's allowed to continue, we estimate that such reassessment province-wide will add \$13.8 million per year to CP Rail's property tax bill, probably equal to or a larger amount than CN's. It would more than triple our right-of-way property tax bill. The result: We'd have to generate about \$180 million in additional revenue per year just to stay even.

That's the big picture, but I'd like to talk about a smaller example, a smaller scale, and talk about the fact that there are sections of CP Rail's network in Ontario today where the tax situation can be the difference between viability and being forced to exit the market in that territory.

A real-life example is our Owen Sound subdivision, which runs from Mississauga north to Owen Sound. The whole line is losing money. Losses north of Orangeville, which is about midpoint, are more than \$1 million a year. We can see no way of correcting this and we have served notice of intent to abandon the northern section. The south end is also losing money, but we believe it could be made viable with a combination of revenue growth, commitments from shippers and lower operating costs.

However, what we achieve in a business sense could be wiped out by property tax increases. The line to Orangeville from Mississauga runs through three municipalities in Peel region: Mississauga, Brampton and Caledon. If they reassess our roadway without the railway class factor, we figure our property taxes would more than quadruple, from \$80,700 paid in 1994 to some \$360,000 per year. The result would be that the line would remain uneconomic and we would have no alternative but to seek its abandonment. This illustrates vividly that taxation in Ontario does affect railway viability and that a point is eventually reached where it becomes the sole factor. Although many local stakeholders have become aware of the tax impacts and have indicated a desire to work with us on this particular local problem, it's clear that real change will only come with the cooperation and the will of the provincial government.

That's one Ontario tax issue. Locomotive fuel taxes are another, and the logic of those taxes is flawed too. It's clear how railway tracks are paid for; it is a lot less clear how highways are paid for. Yes, they're financed by governments, but who really pays for the roads in the

end? A lot of people, truckers included, believe fuel taxes are payment for the highway system, but these taxes are not dedicated for road use and there's no clear system for allocating costs or collecting revenues for full commercial use.

Two questions arise: If fuel taxes are for highways, then why do railways pay any tax on locomotive fuel? Alternatively, if fuel taxes do not pay for highways, how is the truckers' use of the road system paid for?

Locomotive fuel and property taxes impose costs inequitably on rail transportation. Both have the effect of making railways subsidize the public highways used by their competitors. Highway use continues to grow. For commercial users, it is being made more attractive by steadily increasing allowable vehicle weights and dimensions, the latest in 1993 allowing 53-foot trailers. This is how government policy can unbalance competition in favour of one mode. We don't think trucking should be denied the benefits of advances in technology and vehicle design, but we do not think these changes should be made without a clear view of how much of the highway system costs come from heavy commercial use and how those costs are recovered.

Spiralling road use means less utilization of the railway infrastructure, and the continuing shift of freight from rail to the highway is a prime reason restructuring the rail network in the east has become so urgent.

To sum up what's been said, provincial tax treatment is a major contributor to the structural problem faced by Canadian railways. In a direct way, these policies add substantially to our costs and affect our overall position as a viable transportation choice for Ontario's industries. Equally important, tax treatment and highway funding policies restrict our ability to make needed investments.

The Ontario government says its tax policies do not materially affect rail competitiveness. We disagree. Some provinces have acknowledged the problem and taken steps, for their part, to begin restoring balance. Quebec has gone some distance in reforming its treatment of roadway property, Manitoba has shown strong leadership in reducing fuel taxes, and let's not forget that Nova Scotia doesn't tax locomotive fuels at all.

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Ontario is not alone in creating the railway tax issue, nor will reform of tax policies alone address a larger Canadian railway structure. The issues require vigorous action on the part of government and the railways. We're resolved and committed to doing our part to invest to the maximum we can, to better manage the costs of excess capacity and to forge a new relationship with labour.

Governments need to do their part too. In Ontario we urgently recommend two things: Taxation of locomotive fuel in Ontario should be reduced annually by one cent a litre starting this year; and property taxes on rail right-of-way property, the railway equivalent of the highway system, should be phased out over time beginning this year.

In the interim, there is an urgent need to reinstate the railway property tax factor. Harmonization of Canada's fragmented transportation and taxation policies cannot be

achieved overnight, but it's time for Ontario to take its first firm steps towards that goal. Clear-cut issues of taxation and equity are the right place to start. Thank you very much for your attention.

**Mr Kwinter:** Thank you very much, Mr Taylor. I listened with interest and I'm very sympathetic to your problems, both with the fuel tax and with the right-of-way tax. It seems to me, with my experience as the minister, that one of the problems you have is a public relations problem.

To give you an example, virtually every community that I went to as the Minister of Industry, Trade and Technology that didn't have a four-lane highway immediately lobbied me to four-lane the highway into its community. No one, in my memory, ever asked me to bring a railway to their community.

I think that is one of the problems you have. I think it's a matter of raising the awareness of people to the importance of the railway system to our competitiveness and to all of the ancillary benefits that accrue. I almost hesitate to ask, but where are those locomotives that you're buying coming from?

**Mr Phillips:** London.

**Mr Taylor:** No, in fact, these particular ones are coming from the United States, but out of the total bill of \$200 million for those units, about \$40 million is coming directly from producers of equipment in Ontario. They're being assembled basically in the States, but there are a lot of Ontario parts in there as a large component.

**Mr Kwinter:** I know that the GM diesel plant in London is a major supplier worldwide of locomotives and it's a very important component of our economy, certainly in the London area.

As I say, I think there has to be almost a joint effort on the part of the railways and the government to really let people know the importance that the railway plays in our day-to-day life. I think that would go a long way in at least raising public awareness and getting a more receptive ear from government. I don't know whether or not you agree with me, but I'd like to hear your comments.

**Mr Taylor:** I do and I think it's unfortunate. Quite often, when we do get interest expressed, it surrounds a point where we are forced, for economic reasons, to be withdrawing service as opposed to putting service in. I think it's partially, though, the nature of the beast. We're not a very visible industry as compared, for instance, with trucks. We all pass the trucking industry on the 401 and we know it out there, and by the fact that we run on our own rights of way we're not extremely visible to communities other than obviously the shippers and the passengers who use us.

I think your point is well taken, though, that somehow the true benefit of rail is not in the front of people's minds. We have to do better in that regard.

**Mr Carr:** How many employees would you employ in the province of Ontario? Do you have any idea?

**Mr Taylor:** Approximately 5,600, and as I recall, our annual payroll runs at about \$270 million a year with that group.

**Mr Carr:** For the Ontario employees, 5,600.

**Mr Taylor:** That's right.

**Mr Carr:** You outline very clearly on pages 11 and 12 what you would like to see happen in terms of the taxation issues. Do you have any estimate of what it would cost the Ontario treasury if those recommendations on pages 11 and 12 were implemented, any figures?

**Mr Taylor:** Yes, the right-of-way tax that we pay currently is approximately \$6.5 million and the fuel tax that we pay is around \$11 million to \$12 million a year.

**Mr Carr:** So we're talking combined, on the high side, about \$18 million. You say, on the property tax on the railway, your recommendation is to phase it out over time, beginning in 1995. How long would that take? What would you like to see in terms of a phase-out before we would lose that \$6.5 million?

**Mr Taylor:** A couple of million dollars a year would seem to be reasonable. We're quite aware of the constraints that the province has and that it's probably not realistic to do it immediately, but a couple of million dollars a year would be a nice reduction.

**Mr Carr:** You say on page 11, the recommendations, about \$11 million to \$12 million—that's one cent a litre—starting this year. How would you see that phased out? Again, how many years before it got phased out totally?

**Mr Taylor:** The current tax on fuel in Ontario is four and a half cents a litre, so it would take just over four years to achieve that.

**Mr Carr:** And the total revenue is \$11 million to \$12 million. Thank you very much, a great presentation.

**Mr Sutherland:** Can I just clarify then? The right-of-way tax, though, goes to municipalities because that's property tax assessment. That doesn't come to the province.

**Mr Taylor:** That's right.

**Mr Sutherland:** Your chart 2: I should tell you, we saw this chart earlier today in a presentation, except it didn't have railway on it; it had all the other forms but railway was left off. I think I understand now why it was left off. If the right-of-way tax was off, how would that change the 14.2% figure? How much do you think that would come down if you weren't paying any of that right-of-way?

**Mr Taylor:** Oh boy.

**Mr Sutherland:** These are Canadian figures overall. Would it come down a couple of points, do you figure?

**Mr Taylor:** I don't quite know. Let me think that through.

**Mr Sutherland:** If you don't know today, if you could table that with the committee, that would be great. I'd be interested in knowing.

**Mr Taylor:** Certainly. I could calculate that very quickly and get to you on this, no problem at all.

**Mr Sutherland:** That would be great, if you'd table it with the committee. That would be terrific.

On the fuel tax, if I can just clarify again, you pay, then, the same rate of fuel tax that the truckers would pay



or anyone else who uses—

**Mr Taylor:** No.

**Mr Sutherland:** It's the diesel tax?

**Mr Taylor:** No, there's a different fuel tax paid by truckers, and we're not trying to allude to the fact that we pay the same as truckers do. They in fact pay quite a bit more in Ontario per litre, but our point is that if that ultimately is there to build and maintain the roads, why should we pay anything at all?

**Mr Sutherland:** When did the tax begin to apply to locomotives?

**Mr Taylor:** The history of that? I think it was in the late 1980s. That, again, I could supply to you, but I don't have the time line on it.

**Mr Sutherland:** I appreciate your taking the time to come forward because it has been very informative in terms of understanding some of your issues related to issues under provincial jurisdiction.

If we've got time, just one more question: You mentioned that in 1990 was when the different right-of-way rate for the railways was put in. Could you give us some sense as to what that rate was and how that compares to what you pay now?

**Mr Taylor:** Basically it was a railway property tax factor which really separated railway properties into a separate class for taxation purposes. What happened was that was removed, and the impact of that has been to expose us to being taxed according to the properties that are contiguous to our lines. For instance, when we run past the SkyDome we are taxed as if we are the SkyDome, which is, in my mind, ridiculous but also adds

a tremendous volatility. We are therefore subject to our taxes going up just by the mere fact that somebody builds a high-rise next to our property. It has no real logic or bearing.

**Mr Sutherland:** You said you're paying \$6 million now. What were you paying before that change, roughly, in overall property tax, with the different factor? Again, if you don't have it, if you could table that, we would appreciate that.

**Mr Taylor:** That gentleman is our tax manager, Mr Mason. Prior to it, it was about \$5.8 million. Our concern though, again, is that we're heading towards \$13.8 million—

**Mr Sutherland:** Ongoing increases, right.

**Mr Taylor:** —an additional \$13.8 million, above and beyond. We're heading towards \$20 million, in rough numbers. It was \$5.8 million.

**The Chair:** I thank CP Rail System for making its presentation before the committee this afternoon.

I would like to let the committee members know that we've had a cancellation at 11 am tomorrow and we've moved up our 11:30 appointment so we should be done tomorrow at about 11:30, but we do have a few house-keeping items we should deal with, so it might take five or 10 minutes after that.

*Interjection.*

**The Chair:** It was the Insurance Bureau of Canada that cancelled. This committee stands adjourned until 10 am tomorrow morning.

*The committee adjourned at 1721.*











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\*Sutherland, Kimble (Oxford ND)

*\*In attendance / présents*

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ISSN 1180-4386

## Legislative Assembly of Ontario

Third Interession, 35th Parliament

## Assemblée législative de l'Ontario

Troisième interession, 35<sup>e</sup> législature

# Official Report of Debates (Hansard)

Wednesday 15 February 1995

# Journal des débats (Hansard)

Mercredi 15 février 1995

**Standing committee on  
finance and economic affairs**

**Comité permanent des finances  
et des affaires économiques**

Pre-budget consultations

Consultations prébudgétaires



Chair: Paul R. Johnson  
Clerk: Lynn Mellor

Président : Paul R. Johnson  
Greffière : Lynn Mellor

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## LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON  
FINANCE AND ECONOMIC AFFAIRS

Wednesday 15 February 1995

## ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

COMITÉ PERMANENT DES FINANCES  
ET DES AFFAIRES ÉCONOMIQUES

Mercredi 15 février 1995

*The committee met at 1002 in room 151.*

## PRE-BUDGET CONSULTATIONS

## ONTARIO TEACHERS' FEDERATION

**The Chair (Mr Paul R. Johnson):** We continue with deliberations with respect to pre-budget consultations. The first presentation this morning is by the Ontario Teachers' Federation. If you would identify yourselves for the purposes of Hansard and the committee members, I'll remind you that you have 30 minutes within which to make your presentation and field questions from the committee members.

**Ms Anne Wilson:** My name is Anne Wilson. I have the honour to be the president of the Ontario Teachers' Federation.

**Ms Ruth Baumann:** I'm Ruth Baumann. I'm an executive assistant with the Ontario Teachers' Federation on staff.

**Ms Wilson:** We're certainly pleased to be here this morning to address the standing committee on finance and economic affairs at this pre-budget consultation. I'm sure many of you are aware that the Ontario Teachers' Federation represents 130,000 teachers in the publicly funded systems of Ontario. We represent elementary, secondary, public, Roman Catholic, English and French teachers across this province.

For several years, we've used this opportunity to discuss with you the role of the provincial government in the provision of education, both elementary and secondary, for our students and to talk about the needs of our schools in Ontario today.

We want to focus on the impact of the Royal Commission on Learning, which has recently reported, on January 26. Public expectations are there: Is there a capacity for our system to deliver what the public is expecting? For the past five years, I would suggest that the Ontario education system has been buffeted by two forces: increased opportunity for success and the real and perceived fiscal pressures that are on the system, and also the conviction that the education finance system is flawed.

In 1993, in our submission to this committee we spoke about the systematic downsizing of the Ministry of Education and Training, and the reductions in transfers, undermining the system's capacity to implement change such as the destreaming issue. In 1994, we outlined the paralysis created by the social contract and the expenditure control plan.

Let's look at the Royal Commission on Learning. Its establishment in May 1993 marked the beginning of the first real look at the system since the Hall-Dennis report

back in 1968, Living and Learning, that Justice Hall and Lloyd Dennis produced. The interest in the work that has been done by the royal commission is tremendous. I don't think, in my career as an educator, I've seen so much in the press on the public interest in education. As a teacher in Ontario I am pleased to see this, because to my mind education is one of the most important areas we need to be dealing with. We know that parents, teachers, students, employees, interest groups, a total of 3,000 groups and individuals, commented to the royal commission over the period of their consultation period. So the response has been phenomenal.

The Royal Commission on Learning has focused on the needs of the children, on the new foundations to learn skills, to continue learning. They've also focused on the collective attention that we need to be paying to education, the kind of education that our children need and that society wants. There are the early childhood programs, the early literacy interventions, the affirming of the role of teachers, more support for teachers and ending teacher isolation.

The royal commission report speaks intelligently about the role and use of technology in learning, calls for a systematic commitment to literacy and also lays the foundation for accountability. As you are aware, some of the recommendations might be contentious, are contentious, but I think the report has a mission and a purpose and has certainly captured imagination and built expectations in Ontario today.

OTF is pleased to see the commission's focus on the role of the teacher and the call for more collaborative workplaces. The Creating a Culture of Change project is a joint venture between the Ontario Teachers' Federation and the Ministry of Education and Training and it's in its third year. It's a venture that supports teachers across the province in local schools, helping them meet the needs to implement The Common Curriculum, improve their Transition Years program, develop anti-violence programs and break down the isolation they often feel in their classrooms.

We hope that this project—our three Cs project, as we call it, Creating a Culture of Change—will continue to play an active role as schools and their communities work with the recommendations from the royal commission.

In the report there is a focus, certainly, on the technology and it's quite a significant focus for several reasons. There's a recognition of the effective use of technology in learning and that it's not the same as learning to use a computer. There's much more to the technology than that. The technology opens windows on what is learned, how

it can be learned and with whom it can be learned. Technology planning must do more than put hardware and software into our schools. It must assist in rethinking teaching and learning.

Many classrooms in Ontario today have computer equipment, but much of it is more than 10 years old. The grant-eligible microcomputer systems program, GEMS, was a victim of the 1993 expenditure control plan, which was unfortunate. The commission has recommended there must be financial and human resources put into this area.

#### 1010

The telecommunications aspect of the technology needs cooperative efforts. OTF and the affiliates, provincial school board and trustee organizations, provincial supervisory officers' organizations, Contact North and the Ministry of Education and Training, together founded the Education Network of Ontario, ENO, which provides coordinated, affordable telecommunications activities, computer conferencing and access to the Internet. We have over 20,000 Ontario educators who have registered. We have thousands more who have applied to be included on the network, and we're working through those registrations. I believe, because of the number of registrations, we have about a 10-week waiting list right now to register those people on to the network. So there is great interest. Over 200 schools are provided with access to the SchoolNet.

In another area, the federation welcomes the clarity which the commission report brings to the role of the provincial Ministry of Education and Training. There is a pressing need for this ministry to have substantial professional expertise in education to be responsible for key curriculum documents, program design and implementation. A few years ago, a senior ministry official saw the ministry's future as "no longer setting policy, but brokering and facilitating the movement of good ideas among boards." The implementation of destreaming and The Common Curriculum have shown some of the confusion that results when the ministry fails to provide the framework that is needed.

The Royal Commission on Learning report says:

"By itself The Common Curriculum is insufficient for informing teachers and parents about programs. While it is sensible to making learner outcomes the basis of curriculum design, it is also necessary to indicate what major areas, topics or skills might be emphasized in an annual program, in a way that is not restrictive, but permissive and helpful in choosing priorities among alternatives....

"What is missing now is a set of curriculum guidelines that describe at least some of the sequences. Without such guidelines, there is no assurance of consistency in or between schools in what is taught and learned. Curriculum guidelines are frameworks within which specific programs can be elaborated in each school or class. Existing guidelines below the grade 10 level are not congruent with The Common Curriculum and must be redesigned.... Some work is necessary at once, to give teachers and parents some guidance, support and reassurance."

Desire alone will not establish a strong and effective

Ministry of Education and Training. The commitment of resources and the political will will do that.

Other issues from the royal commission certainly include early childhood education and the whole area of assessment and accountability, issues that are important to our children, our students in Ontario today. All of these issues, all of these recommendations, will require significant resources even in the planning stages.

Another area of importance certainly to teachers in Ontario and to the students of Ontario relates to the Ontario Educational Communications Authority (TVO/LaChaine). It provides a significant education service to students and to teachers. We understand that the fiscal pressures seem to be heaviest on education programs, but I would suggest to you that TVO/LaChaine needs adequate resources to maintain the commitment it has to our students and to our public for educational issues.

I want to look for a few minutes at education finance reform, since this is the finance committee. Over the last number of years, in the past decade, there have been three major reports to define how education finance can and should be changed: the Macdonald commission on education finance, the Ministry of Education's education finance reform secretariat and the Fair Tax Commission. Many recommendations were made by those three groups but there have been no changes, really.

The need for change becomes more and more acute. There are fundamental inaccuracies and unfairness in public tax as the primary source for education funding. The social contract seems to have delayed the day of reckoning. The deepening of the divisions between assessment-rich and assessment-poor boards is very evident.

In 1994, this federation told this committee:

"One particularly adverse effect of the social contract in education has been its disproportional impact on teachers within their first 10 to 12 years in the profession—our young teachers. "These young teachers find themselves with significantly larger income losses"—than they expected—"at a time in their lives when many would normally be considering home purchases or other significant investments in Ontario's economy. The X generation of teachers, frozen for the term of the social contract and not knowing what will follow, is unable to plan effectively for the future or to contribute positively to Ontario's economic recovery."

In the intervening years the pattern is becoming more complex. The grid increases expected during the term of the social contract are lost to those young teachers permanently. The inequalities among our teachers are increasing. Some boards in the province have the financial capacity to cope with these implications for the teachers regarding the social contract; other boards do not have this flexibility. So the divisions have serious implications in the public and separate board comparisons, and comparisons between English and French boards.

Recently we've received a publication from OISE: Public Attitudes Towards Education in Ontario. It's a 1994 publication by Livingstone, Hart and Davie, and in that report they indicate that in comparison to 10 years



ago, a vast majority of Ontarians are willing to pay more taxes in support of education.

In conclusion, on behalf of Ontario teachers, we recognize the public environment within which this committee will be weighing its report. We know there is an increasing public resistance to taxation in general, a growing perception of unfairness in the tax system, and in the field of education, rising expectations of what can be accomplished.

Government announcements to date regarding the recommendations of the Royal Commission on Learning have included no promises of new money. In the absence of new money, the dilemma will be how to reallocate existing funding and at the same time re-establish an equity in financing of education across the province. The standing committee on finance and economic affairs, the Treasurer and the government must consider whether at this time and for these changes there is public support and the political will to put the resources, including new funds where necessary, into real educational change.

As the commissioners of the Royal Commission on Learning said in the introduction to their report: "Our schools will never be perfect. Yet our striving as Ontarians requires that they be better than they have been. Like no other social institution, our schools hold the promise of a way into the future for us all." That promise is yours to fulfil.

1020

**Mr Gerry Phillips (Scarborough-Agincourt):** I think the biggest problem we've heard from people in education, fiscal problem at least, is this issue around the social contract. It would appear that going into the social contract there was some kind of parity around the province—not perfect—but that during the social contract there's been more distortion board to board and, I don't know, maybe panel to panel, so that when the social contract ends April 1, 1996, we're going to have some significant disparities. At the same time, as you say in your brief, in the absence of new money we have a problem. Have you any recommendations for this committee or for the government on how we might deal with that problem, the disparity and, frankly, limited resources?

**Ms Wilson:** In response, and I would look to Ruth to come in on this if she wishes, to my mind if there's a will there's a way. If there is agreement among the political people in this province that this inequality must be rectified, then I think it will happen; it can happen. It seems to me there has been more money saved out there than the social contract ever thought would happen, and I think we need to be looking at some of those saved moneys and redistributing them, if you will.

I'll tell you, in the schools of Ontario the problem of the increment, the freezing of the increment, is causing a lot of anguish between our new teachers, our more experienced teachers; it's demoralizing.

**Mr Phillips:** I hear that wherever I go.

**Ms Wilson:** Maybe Ruth has something.

**Ms Baumann:** I think we have to be careful that we look at the social contract fallout as an immediate

consequence of that, but recognize that what we're seeing now—and this is what we've tried to say in the paper—is that what's happening as we approach the exit from the social contract very much reflects the state of education finance going into it, that the boards that seem to be managing a smoother process towards exit are the boards that have resources. What you will have at the exit from the social contract will be some boards that are, relatively speaking, on a more stable footing in terms of their teacher population and where they sit—not that they've got more money, but they will have managed to ease the dislocations. The boards that are resource-poor are the ones that are going to have the greatest difficulty in managing that dislocation, and it really comes back to the basic system of education finance, I think, more than the social contract itself. What we're seeing now is that if you start with a system in which things weren't working very well and then you put that on top of it, they don't work well worse, if I can put it that way—terrible English but the right point.

**Mr Gary Carr (Oakville South):** Thank you very much for your presentation. There isn't too much time and David has a question too, so I'll be really quick.

My question relates to the royal commission. Two questions I have are regarding the teachers' college and the teachers' accreditation. Does your organization support that and, if not, where do you see any problems that may arise?

**Ms Wilson:** The college of teachers?

**Mr Carr:** Yes, and also the accreditation.

**Ms Wilson:** The recertification, that idea?

**Mr Carr:** Right.

**Ms Wilson:** Let me talk on the college of teachers. As president of the Ontario Teachers' Federation, I would say the vast majority of our teachers are in support of a college of teachers. I think it's a recognition that we are a profession, and that's one of the points. There are some contentious points, as you can imagine, and I think you've probably seen some of those in the press, but I think the vast majority of our teachers will welcome this. There are many questions that we have about the establishment of the college, how it will operate and mandate and all of those sorts of things, but we want to be involved in finding the answers to those questions, and I'm sure we will be. It's an area that obviously if we're not involved, we won't have the ownership and it will not play out as well as it should.

On the recertification, I believe we have a semantics problem here. I don't believe the commissioners were talking about teachers every five years going back and taking a year to recertify, and that's the meaning if you go to the baseline. I believe the commissioners were suggesting that people need to be current, and the majority of our teachers are. This is what they do for a living. They have concern for the students they teach and many of them put in hundreds of extra hours. So on the recertification and the college of teachers, we need to be involved and we're quite willing to discuss and look at what is being suggested.

**Mr David Johnson (Don Mills):** Thank you as well

for your deputation. My question to you concerns priorities. You've brought many points to us today, technology, computers, the possibility of three-year-olds coming into the system, freezing of the increments which we know is a source of concern with the younger teachers. The separate school system of course has come before us saying there should be a redistribution within the existing system. Given that we have a limited amount of resources, where do you see the priorities over the next few years?

**Ms Wilson:** If you want to have a system that will run smoothly, you need to take care of the increment question. That's one for sure. It is impacting on every school in Ontario and therefore it's impacting on our students. I would suggest that's one of the ones.

Certainly in the area of technology, we need our students to be computer-literate so we need access to current hardware and software, and we need the inservice for our teachers so they can work with the students.

**Ms Baumann:** I would start by looking at the classrooms and I would emphasize what Anne has said about the divisions among teachers that the increment question has brought, which makes it difficult for people to work together when people perceive themselves as having been treated significantly differently.

The other area that I would emphasize in addition to what Anne has said is the commission's recommendation around the central role of the ministry in curriculum development. I think if we don't have an education system that's seen as a whole system across the province, we continue the difficulties that we've had. So there's a real need there, starting from the classrooms, of what those people in the classrooms have to work with and what their resources are.

**Ms Wilson:** One additional point on the three-year-olds: We know from studies that money spent in the early years is financially sound and saves money later on. Many of our little people are ankle biters, as I often call them. They need to have a good start in their education and in life. I'm an elementary teacher and I've taught those little people and the profits back are there. So we need to look at that. I understand there isn't a lot of money in the system, but we need to look at how it can be spent so it will benefit our students the best.

1030

**Mr Kimble Sutherland (Oxford):** When you talk about the increment issue, I get myself in a bit of a difficulty, because I have friends who are obviously new teachers who are suffering under that and of course then I've got a couple of good friends who graduated from teachers' college and haven't been fully employed and a little different perspective depending upon which one you're talking to. So it is a difficulty.

Coming back to this issue of three-year-olds in school, and separating out the issue in terms of the merits of early childhood education versus how you finance it and whether you can afford it and what type of system you set up, some have said that the concept of early childhood education is a silly idea. I guess I would appreciate you elaborating a little more about what people should

interpret as their understanding of how education works and how kids learn when they call the concept of early childhood education a silly idea.

**Ms Wilson:** I would suggest to you that people who call it a silly idea have not seen how children interact, little children, and the things that they learn from each other, from their peers, even at three years of age. There are a lot of skills that the young children, if they have and they learn at three and four and five, will assist them as they go through their educational career: social skills, getting along with people, getting along with adults.

We don't have time to go into all the skills they would learn, sir, but I would suggest to you that if you attend any of our JK classes, you would be amazed at the activities the children are engaged in and how organized they are and how they help each other, and how they help the teacher, how they assist in the classroom. I've often visited senior kindergartens and junior kindergartens, and I've been really amazed at what they're accomplishing and the progression you see from September to June.

I'm also an administrator in a school and I spend time with the little ones. Their spoken skills, the increase in their vocabulary, because they interact with other children and with adults, their organization skills, their awareness of the world around them, of what is happening, is mind-boggling. It really is, and until you've seen it and been involved with those little ones, I don't think anyone has an appreciation of what the teachers do in those classrooms and what the children do.

**Ms Baumann:** There's some very good research that was done, actually in the state of Michigan. It was a 25-year longitudinal study that was done of children in the Perry preschool project that the CIA—the Canadian Institute for Advanced Research—often cites.

**Mr Sutherland:** I'm glad you clarified that.

**Ms Baumann:** The CIAR, as opposed to the CIA. I think that if we want schools to be institutions that help equalize life's chances, research and the research you see out of Europe as well on early intervention at the age of three and the option for families of having their children involved with the school system that early is quite stunning in terms of the changes it makes in life's opportunities that are there 25 years later. The research is very hard to argue with.

#### GREATER TORONTO AREA MAYORS' COMMITTEE

**The Chair:** The next presentation this morning is by Mayor Hazel McCallion, chair of the Greater Toronto Area Mayors' Committee.

**Ms Hazel McCallion:** Thank you for the opportunity to come before you today representing the greater Toronto area mayors. As you know, we've been operating for three years now, as of April, and have accomplished a lot of things, working with the government. The Honourable Ed Philip, minister of the GTA, has been very cooperative and has worked with us. We've been successful in some things and not successful in others, but I guess that's the way life is.

I guess, since this is an election year, we will not be talking so much about tax increases in the province, but



we in the municipalities are concerned about downloading, which really is a tax increase in a roundabout way in that if the province downloads on us, we obviously must reflect that in the property tax. I just wanted to emphasize that we are very concerned about downloading, and not only downloading by this government, but downloading by the provincial government, period, over the years. It has not just occurred in the last few years; it's been a trend of downloading on the municipalities. I just want to say that.

The other thing we are doing in the GTA is that we've done a study in cooperation with the provincial staff on the inequities between the GTA and the rest of the province and they are quite large. Now we are going to continue with the study on the inequities that exist within the GTA because, as you know—I'm sure you read the papers, as we all do—Metro is very concerned about the fact that the regions around Metro are stealing industry and commerce from Metro, and we are. There's no doubt about it; there's a good reason why.

First of all, as you know, the regions around Metro have gone ahead with reassessment to market value on different years, which gives a more level playing field between industry, commerce and residential taxes. Due to the fact that the province turned down Metro's desire to proceed with reassessment to market value and then turned down its desire to equalize assessment throughout Metro, that is one of the major crises that has been created by the province and therefore Metro is at a great disadvantage.

Reassessment to market value in the past has been on the fact that a municipality or the province comes in, does a reassessment but they do not give you the impact on individual properties; they give you a global figure that so many—in Mississauga I think 39,000 properties received a decrease and 41,000 received an increase, but they didn't tell us who. We had to go ahead with market value assessment knowing full well that it would come out equal in regard to the taxes, because it balances out. The province divulged the individual property in Metro and, as a result, I think there were some 44,000 appeals, which is causing a tragic situation in Metro in which large anchor tenants in plazas got a reduction and are now prepared voluntarily to try to help out the smaller tenants in the plaza.

I just want to tell you that the reason we are attracting industry and commerce outside of Metro is because of the mess the province created by not allowing Metro—and I say "Metro"—to proceed. I want to clear that up, because there's some impression that we have tax havens outside of Metro. We don't. We've done our homework and the regions around have taken the bull by the horns and gone ahead with reassessment to market value.

When Mississauga reassessed to market value in 1969, the impact was so great that it had to ask for special legislation to phase in the reduction in the industrial-commercial and phase in the increase in the residential, so our commercial-industrial was loaded to the hilt in Mississauga, as it is in Metro. Of course, it's a tough decision for politicians to increase the taxes on residential developments, but I can give you all kinds—even Mr Joe

Berridge, who has been set up by the province to look at a task force for the GTA, admitted to me in my boardroom, and he was very honest, "I happen to be one of those taxpayers in a residential who is getting a break second to none while the industry-commerce of Metro is being loaded."

The province has to take action, and I'm not at all convinced that the task force it's setting up is going to deal with the most important issue, which is taxation and assessment. The province has had the \$8.1-million Fair Taxation report since August 1994 and we have seen no action on it. We could go back to the Smith report. In fact, it seems that when politicians don't know what to do, they set up a royal commission or a task force to get it off their agenda. That is not just typical of the province; that's the federal government and sometimes even at the local government.

#### 1040

We are concerned about the social contract ending in 1996. The province promised us, at the time we stayed at the table and the unions did not stay at the table to discuss the social contract, made commitments regarding issuing guidelines to interest arbitration and giving greater municipal control of public budgets—no action on that; that has just dropped off the table. As requested previously, we want this, and we negotiated that at the time the municipalities stayed at the table to try to assist and participate in helping to design the social contract.

Let me give you some of the things we're concerned about.

Downloading: Mr Laughren on June 15, 1994, met with the president of AMO and said, "As of July 1, 1994, you will be charged for adding assessment to the rolls." Either the province has to change its calendar year or we're going to have to change ours. You can't tell us to balance our budget, which we do, in the first couple of months of the year and then bring down a provincial budget that throws it for a loop. You just can't do it, because that to me is screwing up our budgeting at the local level.

We approached Mr Laughren and said: "Look, in the city of Mississauga, it was \$1.7 million. Where do we find it? We've just adopted our budget." "Well," he said, "just transfer it to 1995." We are not impressed with the creative bookkeeping occurring at the province of Ontario at the present time. Those are the kindest words I can use: "creative bookkeeping."

Then after it was decided—no consultation with AMO, absolutely none—he set up a task force, because they realized that the \$120 they charged to add it to the assessment in some cases wouldn't bring in the revenue equal to the charge. That's trying to close the door after the horse is out of the barn.

Court security: not your government's decision but the previous one's. We must, us, pick up the tab for court security by our police department in provincial courts. As we said to the former Solicitor General of the former government, "We thought you had a police force called the OPP which might be the ones who should be court security for provincial courts." That I believe is costing

Metro somewhere around \$2 million.

**Mr David Johnson:** More than that.

**Mrs McCallion:** Or more than that. Dave, you should know.

This is the type of downloading that has got to stop.

If you want to take education and welfare off our property tax, we would be extremely happy. Now, we know you can't. At the local level, I believe we have a better understanding of finances than the provincial or federal governments have, I have to tell you. We know you can't assume education, but you could phase in assuming it. Now with the royal commission on education, the province is going to dictate the entire educational system for the province. I say if you're going to dictate it, pick up the tab for it. I have no problem. I don't mind having jurisdiction for something and being responsible for the cost of it if I have control of it, but that is not what is happening.

Let me go to some others.

Policies and guidelines for grant and subsidy qualifications must not be altered to remove eligibility on items which previously qualified. That is happening too. Every so often we get hit with a different interpretation.

Bill 163 is downloading cost to the local government. I've got to tell you. Parkland dedication: The city of Mississauga had to inform Morley Kells of UDI, as well as the staff of the province, that the way we were doing park dedication was not double-dipping. They now acknowledge that it isn't double-dipping, but they can't change the act to change it. I've asked Mr Philip to drop that from the bill, but they made a deal with the developers. Interesting, the government making a deal with the developers.

I have to say to you that Metro has another major problem. I believe the province is now going to try to download even more on them with two more subways. Our infrastructure in the regions around Metro is paid for by the developers. We collect levies. That is why Mississauga is debt-free, because the infrastructure is paid for. All infrastructure in Metro goes on the tax bill and it's debentured. That is why Metro's taxes are way out of whack.

The question that arose is, what are the regions around Metro doing to replace the infrastructure? Many municipalities around Metro are setting up reserve funds to replace the infrastructure, because it doesn't last forever. That's the type of financial planning occurring at the local level. I think we could show the province, maybe, to some degree, about adopting some of the policies that have been adopted at the local level.

What are we going to do about the Fair Taxation report? If the intent of the Premier is to set up a task force to look at the GTA in regard to many items such as governance, I can assure you it's going to be a long time coming. What we should be facing up to is taxation reform, the province to determine how it's going to deal with assessment. That's the priority on the minds of the Metro area and on the minds of the GTA regions around Metro. You have to face up to taxation. You have a report that, in my opinion and the opinion of the municipi-

palities around Metro, has to be dealt with. We don't need any more reports.

Our other concern about the GTA task force the Premier is setting up is that it's going to be a task force composed of academics, bankers, mainly non-bureaucratic people from the local level but none elected from the local level. I can assure you, and you can take a message to the Premier, that he's got a battle on his hands. We have expertise at the local level that knows the problems we're facing every day with the entanglement and the confusion that exists. We believe we have the expertise to advise the province about what should be done in regard to changes that have to occur in the GTA.

I'll give you an example. I want to compliment the former Minister of Transportation, Mr Pouliot. He set up a task force to look at the integration of transit within the GTA. When we sat down as municipalities to look at it, the first item on the agenda was not, "How are we going to govern this?" not, "How are we going to amalgamate?" not, "How are we going to eliminate?" It was, "How are we going to serve the transit user of the GTA more efficiently and more economically?" And it was a success. Governance never entered the picture. Now we have an integrated fare in the GTA, and we're proceeding further with the secretariat he set up to look at how we can integrate information so somebody in Markham can find out when the bus leaves Square One in Mississauga.

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It just shows you what we can do if you will give us the opportunity to do it at the local level. The day has come that mandating from the top down has got to go, and the solutions have got to come from the grass roots up. We, as municipalities in the GTA, now with the support of the mayor of Toronto and the mayor of Scarborough, who were not on board previously, have the expertise, have the desire, and we want to make the changes that are necessary. We don't want to be told by the province how to do it, because all the messes that have been created over the years, and not just this government, have been created by the provincial governments mandating down.

The regions formed around Metro cut off all our communication with Metro—cut us off. We are a unit. We're the engine of Canada, certainly the engine of Ontario, and our engine is sputtering because of provincial interference and mandating things down on us that just don't work.

I think of the tire tax that another government put in that was going to help us but got into the slush fund, called the consolidated fund of the province, and not used for the purpose of the GTA. Waste management: \$60 million, \$70 million down the drain, and nowhere near a site in the three regions around Metro, not a site yet, and \$140 million down the drain with the Ontario Waste Management Corp.

I tell you, folks, when you tell me you don't have any money at the province, I fully understand. You don't need to be a rocket scientist to figure it out. We say to you, we want to be consulted, and in advance, about decisions like Mr Laughren made on assessment. I believe we should pay for a service provided. I have no problem with that, but don't land it on our budget in a



year we've already confirmed our budget for. If he had said January 1, 1995, it would be understandable and we could prepare for it, take it into account.

It's a lack of understanding of the staff in the Finance department, in my opinion, of how local government works, and you folks can do something about that. When they brought in the expenditure control and then the social contract, the staff in the Finance department did not know—and that's proof—that our calendar year is not the same as the province. That's general knowledge.

So, folks, let's make some changes. As I said before, my politics are basically conservative with a liberal point of view, a great social conscience, and looking for a lot of reform in government.

Ladies and gentlemen, I say to you we are no longer children of the province, we've grown up, and we know what has to be done. Give us the opportunity to do it and stand aside, as I would hope the Premier would do, and say to us as municipalities in the GTA, "You tell us what should be done," and then if it doesn't work, who can he blame? He can say, "You folks told us." But when it comes from the top down, it will not be successful. There'll be confrontation second to none. Here you have an opportunity as a province for once to say, "Tell us what should be done, staff and elected people of the GTA," and then if we blow it, we can't blame the province.

But no, I'm afraid that I see the task force going in the direction of a group of academics that we'll have to teach what local government's all about, or our staff will have to show them; or bank managers with whom we've had a problem—and we've had them before in our GTA and told them to smarten up.

We know what has to be done. Give us the opportunity to do it. And, please, no more studies on taxation. They're gathering dust at Queen's Park. Take off the dust and come up with some decisions for the good of the people you folks should be interested in serving. Certainly we are, at the local level, because we're with them every day, can't get away from them. And we know what they're thinking; that is, no tax increases, definitely, and we've said that to the federal government, because a tax increase right now will set back the economic recovery we're experiencing, it will send more to the underground economy, which is flourishing in our province and our country, and it will discourage foreign investment in our country.

So that's our message, the GTA mayors.

**The Chair:** Thank you, Mayor McCallion, for your most enlightening presentation. We have very little time left, about a minute and a half per caucus. That's for the question and answer, I might remind committee members.

**Mr David Johnson:** Then I'll get started and just say thank you very much.

Certainly downloading has been rampant over the past few years; you've outlined a number of cases.

The assessment issue in Metropolitan Toronto I think is the greatest mess that has to be faced. Businesses are overassessed, tenants are overassessed, and the single-family homeowner cannot pay any more taxes; they're

paying enormously high taxes as it is. There's simply too much infrastructure that's being supported on the assessment system in Metropolitan Toronto. Of course we think primarily of schools and welfare. Those are the two the board of trade has brought to our attention.

You made comments about the two new subway lines that are being proposed. We see the general manager of the TTC today saying they're not affordable, that the capital within the system that's required for maintenance could tally several hundred million dollars, perhaps \$800 million, over the next four or five years.

My concern is that there is too much cheerleading going on about the subways, that the provincial government is simply trying to push it in without understanding the economic implications. If it makes financial sense—we should stand back, bring in a neutral third party, have a look at it, see what the costs are, what the implications are for the taxpayer, what the implications are for the fares in the future, because the costs are going to be enormous and the extra revenue coming in will not support the cost of these lines.

I don't know. Is that in line? You probably have about 10 seconds. The province, from what I can see, over the financial concerns of Metro is trying to push in these extra two lines, which we'd all love but apparently can't afford.

**Mrs McCallion:** Dave, you're not absolutely correct when you say that the residential can't pay any more taxes. I would love to own a home in Rosedale or Forest Hill.

**Mr David Johnson:** You tell the people of Metro they don't pay enough taxes. It won't be me.

**Mrs McCallion:** I'd like to own a home in Forest Hill or Rosedale and compare it to the taxes of an 1,800-square-foot home in Mississauga. The residential in Metro is badly undertaxed in certain areas, and commercial and industrial are loaded to the hilt. I can't agree with you there.

In regard to the two subways, we just can't appreciate that the province has the money, which it doesn't have, to subsidize the debenturing and the interest carrying charges on two subways, when we know it's turning down and telling us out in Mississauga that it doesn't have the money for an interchange at Mavis Road and Highway 401. Right now we have three major warehouses of 500,000 square feet each wanting to move to that area, not moving from Toronto, by the way, moving from other areas of the country.

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**Mr Sutherland:** If I may just go over some of the things that you talked about and want to mention, you mention about municipalities and the province taking over welfare. Of course there was a negotiated agreement with AMO representatives as part of the disentanglement process. Individual municipalities as a whole rejected that disentanglement deal that was in place. Okay?

I think the other interesting thing, though, through your presentation was your comments about the integrated pass. You mentioned how if we're going to have reform done, it has to come from the grass-roots level. But the

integrated pass did not come about until the government got involved to provide some leadership to bring all the parties together. There wasn't a lot in the way stopping the individual municipalities and the individual transit systems from developing the pass system on their own.

If the process is going to work, it needs some provincial involvement in terms of providing some leadership and of course the involvement of the individual municipalities, but from the way you've presented the integrated pass system, it did show that the provincial government was there providing the leadership and working in cooperation with the individual transit systems. That didn't come about solely by all the individual municipalities working on their own and deciding to do it.

**Mrs McCallion:** Let me correct you on two things. Disentanglement was not turned down by AMO. Disentanglement was canned the day that Ed Philip came to the board of directors of AMO, and I'm on it, and announced expenditure control, which threw the thing in complete chaos. Disentanglement was ruined by the expenditure control program. That very day AMO said, "This throws it to the winds." So, please, let's get that straight once and for all.

**Mr Sutherland:** There was a negotiated agreement with AMO representatives.

**Mrs McCallion:** I have written Mr Laughren and corrected him. He gives out the same false information on AMO, I have to tell you.

Secondly, in regard to integration, I don't think you realize that integration was occurring. We have integrated transit with Brampton. We have some integration with the TTC. Long before the minister got us all together, it was occurring, rather slowly, but occurring.

You see, what it really clearly says to me as I listen to people, and I've come down to many standing committees, is the lack of understanding of the members of the Legislature in regard to what exactly is happening at the local level. You're out of touch, I've got to tell you.

**Mr Sutherland:** Well, there are two sides to every story.

**Mrs McCallion:** You're out of touch.

**Mr Phillips:** I have just a comment first and then a question. I was interested in your comment, "Take the message to Bob that he'll have a battle on his hands if he proceeds." From my own experience I just want to say I'm betting on Hazel over Bob in a battle, because I haven't seen you lose many and because I think you've demonstrated—

**Mrs McCallion:** I have no problem with appointing an independent chairman, don't get me wrong, but if he starts loading the task force with academics and bankers and everybody under the sun other than the expertise at the local level, the staff that know the day-to-day operation of the municipality and the elected people who have to make the decisions on the day-to-day operation of the municipality, then it's going to be a waste of time, and we're not prepared to let that happen. We'll set up our own task force if that happens, I've got to tell you.

**Mr Phillips:** I appreciate that and, as I say, when the Pro Line odds come out, I'm with you.

In Metro Toronto we have seen a significant job loss. There really are about 200,000 fewer jobs in Metro Toronto now than there were in 1989. At the same time in the surrounding area, including your successful municipality, we've seen job growth occurring. My question really is this: Do you think Metro Toronto is at the end of the problem or is it, in your mind, just going to be a continual kind of a running sore until it's resolved? I ask you the question because you're on the other end of it in some respects.

**Mrs McCallion:** Metro Toronto has its assessment problem. That's a mess and that has been created by the provincial government. It's sad. Secondly, they've got a lot of contaminated land, they have a lot of old industrial stock. You see, we're building 40-foot buildings in Mississauga. We have more new stock and more new stock around, not just in Mississauga, but in Markham, in Vaughan etc. So Metro is up against those situations, no question about it.

It's important to us around Metro that Metro is strong, that the city of Toronto is strong. That's why I set up the greater Toronto area mayors to promote the greater Toronto area. I can't call it the greater Mississauga area. I'd love to. In fact, I had to go to confession 10 times before I decided I was going to promote Toronto. But it is known internationally and it's got to be strong.

The GTA is only as strong as its weakest link and if the major core is weak, like the city of Toronto, then we're not as strong around. We recognize that and we want to work together and, as I say, we are working together.

I'm delighted that the new mayor of Toronto is on board and that she's contributing and wants to participate, and the mayor of Scarborough. Those were the only two mayors who were not supportive of my effort of the GTA and we've got it now, so let's go. We're ready to go. As she said the other day, and I agree, we're not always going to agree on things but, by Jove, we're going to find solutions and we've got to strengthen the city of Toronto. They've got some problems.

Your environmental controls in this province: The environment wasn't ruined overnight and it's not going to be cured overnight. But today nobody's going to buy land in the city of Toronto and go through the environmental like we're going through in Texaco and removing all the soil and taking it up to Britannia. We enjoy that, you know, moving soil from this area to this area. Just great, isn't it? Great. It's hard to believe the environmental controls that this province is putting on that, in my opinion, are ridiculous, and we are an environmentally sensitive city, recycling second to none.

**The Chair:** On that note, Mayor McCallion, I'd like to thank you for making your presentation before the committee this morning.

**Mrs McCallion:** In fact, I'd love to give you all a copy of the City of Mississauga 1994 Successes: \$4.3 million staff saved in the city of Mississauga in 1994. Not bad.

**The Chair:** Did I hear you say you are going to give us all a copy?



**Mrs McCallion:** Sure. If you all want a copy, I'd love to give you all a copy.

*Interjection.*

**Mrs McCallion:** We're working at it.

**The Chair:** If you want to table one with the clerk as opposed to giving just one to Gary Carr.

**Mr Carr:** Can I have one? Then I'll table it.

**Mrs McCallion:** Yes, if you would, and I'd be glad to send you as many as possible. We're getting requests from municipalities across Canada for it.

#### ONTARIO SCHOOL BUS ASSOCIATION

**The Chair:** The next presentation this morning is by the Ontario School Bus Association. Please come forward and make yourselves comfortable. I'd like to say it's going to be a hard act to follow, but I think that would be inappropriate.

**Mr Brian Babcock:** Mr Chairman and members, on behalf of the Ontario School Bus Association, thank you for accepting our request to appear before the committee during your pre-budget consultations.

My name is Brian Babcock and I'm president of the association and president of Babcock Coach Lines in Beamsville. Dan Stock is vice-president and chair of our viability committee and also vice-president of Stock Transportation Group based in Markham. Bill Heslop is a former vice-president of the Ontario School Bus Association and is vice-president of Canadian operations at Charterways in London. Richard Donaldson is the executive director of our association.

The Ontario School Bus Association is a voluntary association representing the interests of school bus providers located in each and every county of this province. Through leadership and learning opportunities the OSBA prioritizes—I'd like to underline "prioritizes"—the enhancement of the long-term safety and security of students in Ontario. We hope to achieve stability with quality service providers who are viable in the school bus industry in Ontario.

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Our members comprise 80% of the 18,000 school purpose vehicles currently operating in Ontario. Our industry, with 23,000 employees, the majority being female part-time employees, carries approximately 800,000 students from home to school and back each day.

Last year when we appeared before the committee, as the School Bus Operators Association of Ontario, we urged the government not to further reduce the general legislative grant to student transportation. Indeed, we were pleased the government accepted our recommendation that no further reductions of student transportation funding occur until such time as restructuring initiatives could be more fully implemented to realize greater cost efficiency.

You will be pleased to know that during the intervening 13 months we have been working in partnership with the Ministry of Education and Training and a number of local boards of education on these very issues.

Last fall the association conducted a province-wide campaign coinciding with the municipal elections. The

campaign was designed to communicate interactively with potential school trustees on current and future issues of student transportation. The results were very interesting, and I want to share with the committee a few of those results. In the package that we're providing you'll find graphs that describe the outcomes.

Trustee candidates were asked, "How do you think school boards should treat student busing?" and 80% answered that school busing was an essential service. To the question, "Who should pay for school busing?" 82% of the respondents said local boards and provincial government. To the multipart question relating specifically to alternative delivery models and systems, 87% supported coterminous sharing, double or triple routing and staggered start times of schools, and these are all initiatives that we have aggressively pursued since 1989.

Let me provide you with a few specific examples where we have seen success of alternative delivery modes and, I assure you, the examples are selected virtually at random.

In York region the public and separate school boards have amalgamated the two previously distinct transportation departments into one. The one department now serves both boards, and it is estimated that this integrated model will result in a 2% to 3% saving in gross costs, translating into \$1 million with a goal of 10% in saving.

In the Dufferin-Peel region new initiatives include coterminous sharing of routes, automation, staggered hours, contract changes and safety measures, and in Hastings county staggered hours is a well-established practice.

Concomitant with my previous comments, the Ontario School Bus Association has been in the forefront of fostering change. As an example, on March 4 we're sponsoring the second of two conferences this year dedicated to exploring greater efficiencies. Participants will include school trustees, board administrators, transportation managers and private school bus operators. We will be exchanging experiences and learning from the successes and perhaps the not-so-successful ventures with all the players in the student transportation industry. It is our main aim, however, to have the participants gain valuable information and leave the conference ready to continue with restructuring.

We have seen that restructuring has its advantages: increased cost-effectiveness in Victoria county; reduction in the education mill rate in Huron county; more effective use of human, physical and material resources in Renfrew; open and collaborative planning in Wellington.

But restructuring has resulted in cost increases to school bus operators. Amalgamated routes and staggered hours have put our buses on the road longer with increased costs for items such as fuel, depreciation and driver salaries, real costs which are not always recognized in the contract provisions between school boards and private contractors.

These contracts are often structured on a per-vehicle, per-mile basis, leading in some cases to hardship for the service provider at the same time that provincial and local governments achieve savings.

The Ontario School Bus Association recommends that the Ministry of Education and Training incorporate additional financial incentives into the school transportation funding formula to encourage school boards to restructure, while at the same time fairly compensating bus operators who incur additional recognized costs.

We recommend that the government maintain the student transportation funding at the 1994-95 levels until such time as restructuring initiatives can be fully implemented to realize greater efficiencies.

I want to turn to the issue of the provincial task force on the integration of local transit and school busing.

During the negotiation of the municipal sector agreement under the social contract, Bill 48, the signatories to the agreement identified the issue of school busing as an area of review, recognizing the need to reduce costs of municipal services. Voting members on this task force include the Amalgamated Transit Union with one vote, the Association of Municipalities of Ontario with one vote and the school trustees' association with one vote. The OSBA requested voting status on the task force as the sole organization representing private school bus services. The request was denied but we were granted observer status.

Prior to the establishment of the task force last fall, our association was very much an active participant in the Ministry of Transportation's community transportation review. Paramount to the general principles agreed to by all parties are the following at the task force:

"The safety of students should take precedence when deciding upon transportation options, and age guidelines should be determined locally (eg, elementary students using school buses versus public transit)," and, "Full-cost accounting should be used when comparing the cost of school buses versus public transit or other options for school transportation, including all capital and operating subsidies from public funds."

The members of this committee will want to know that according to Transport Canada, on a per-passenger, per-kilometre basis the occupants of school buses are 16 times less likely to be injured in road collisions than the occupants of any other motor vehicle. School buses and school bus drivers are subject to stringent construction safety and licensing requirements, both federally and provincially. We maintain that the safety of our province's future, our children, must supersede all other considerations and we will continue to, as forcefully as possible, remind the public of this fundamental principle.

On the issue of full-cost accounting, we accept that all levels of government must scrutinize expenditures, not just in severe economic times but in all years, to determine the best value to the taxpayer. We are prepared to provide to decision-makers high levels of value based on sound management principles.

With this in mind, the Ontario School Bus Association recommends that full-cost accounting be a requirement of doing business in the provincially funded public transportation sector of Ontario.

We wish to thank you for the opportunity to appear here today. We welcome your questions. Having said

that, we were indeed gratified with some of the responses to last year's presentation.

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**Mr Sutherland:** I want to thank you for coming in again. It was good to have your group here last year to talk about some of those issues. I think it's important for your organization again to highlight the safety aspect as well. I have one of the manufacturers of school buses in my riding, Thomas Built Bus, and then Blue Bird, which is one of the other major ones, is just outside my riding. I had the opportunity to tour their facility this past year, the Thomas one, and find out all the stringent testing mechanisms and what they have to put into their buses these days to meet those standards.

I think last year some of the questions and the discussions were about the efficiency issues. You've talked a little bit about them again today. If I remember correctly, I thought you felt last year there was some sense that those issues weren't proceeding as well as they could be, partly because there maybe wasn't as much responsiveness to your organizations and some of the suggestions that you had as to how that could proceed. Would you care to update us, in terms of your sense over the last year, whether there has been more responsiveness to the approach and the specific issues you've been putting forward that will help some of the efficiency and the cost savings?

**Mr Babcock:** I'm pleased that you asked that question. We identified these issues in 1989, and I'm just going to read them quickly before I respond to your question, if I can, Mr Sutherland.

We suggested that there be a combination of facilities—that is, administration and transportation offices—of public and separate school boards; that combined public and separate school students on the same buses may be a situation that bears fruit and, further, to combine elementary and secondary students on the same bus; to increase the flexibility of hours to make better use of buses; to make double and triple runs viable; to extend walking radiuses—I want to be careful here—where safe and practical; and, wherever practical, to use optimally sized vehicles.

Those were our recommendations as early as 1989, and what have we seen in the last 13 months? I want to give both Bill and Dan, and Rick, if he feels he needs to, an opportunity to respond, but I think the results have been gratifying indeed. My perception is that school board administrators and bus operators are taking the issues very seriously. I think we're all acutely aware of the fiscal demands imposed upon all of us as Canadians and Ontarians with deficits that are difficult for all of us to have to think about managing. So this situation is being taken very seriously.

The process is interactive. We'd like to think that we continue to provide quality learning experiences, to share, as I mentioned, both successful and perhaps not-so-successful initiatives. There is indeed now some indication that the successes will bear out in the numbers. Those numbers are preliminary, I have to say.

**Mr Sutherland:** I guess maybe too your organization



is probably one we haven't heard from on the report on the Royal Commission on Learning, but I just thought it might be fair to let you provide any comments, whether you had any issues about three-year-olds on school buses and whether you feel that will have any impact on your organizations, your drivers, what happens now with buses. Did you have any comment?

**Mr Babcock:** I think we all have comments, but in fairness to my colleagues, either Bill or Dan, do you want to field the question?

**Mr Dan Stock:** I think that in terms of the younger children, for us it will be an additional challenge because, of course, when you speak of safety and security, it's an important issue for us. They take additional care than, say, the high school students would. We already do some cooperation in certain school boards with day cares, bringing them to school systems, so that is under way. That type of work is not foreign to us; it would just be additional work, and we'll just have to put additional emphasis on it. But it's an area where safety and security becomes that much more important. We would certainly be in support of that type of direction. Again, for us it's not new.

**Mr Larry O'Connor (Durham-York):** I want to thank you for coming before the committee. I know that Stock has grown quite a bit in recent years and they've actually done a lot of good work in York region collaboratively with the two coterminous boards and I think were very active in that participation.

On a constituency level, if I may use a little bit of the prerogative of an MPP here and ask a question, I often get asked about seatbelts on school buses, and I don't have the best answers. I'd just like to pose a question to you. Why aren't there, and is there a reason for that? Just so that I'll have it on the record and I can pass it on to my constituent who has posed the question to me.

**Mr Babcock:** The most authoritative study that involves student restraint systems in school buses is Transport Canada's 1984 crash study. It is now recognized by the National Highway Traffic Safety Administration, I believe they call themselves, in the US. In essence, what the study indicates is that in the large majority of accidents, which are frontal collisions, the loading force that could create a fatal injury to the student is indeed most significantly reduced without the use of seatbelts. The conclusion of the report is that the number of fatal injuries increases by significant factors with the use of seatbelts.

The difficult part for our industry when we are indeed advocating the issues of safety and security, and believe in it very strongly, is then to say to the public that it's all right to fit the vehicle with a device that could potentially fatally injure your student in an accident of like force. The difficult part for the public is that for some 19 years now we have been instructing our children to use seatbelts in automobiles. Indeed, I can tell you that I get this question from my 11-year-old daughter. It's very confusing. It's a very confusing issue. But the best scientific evidence available to us indicates that seatbelts in school buses would increase fatal injuries.

**Mr O'Connor:** Okay, thank you. I may have to turn

to that report for further information. I know that school bus operators and their drivers certainly do take safety as a number one precaution. Being married to a former school bus driver, I know that the circle check that Stock up in Sunderland provided for their employees, the training was really quite essential, and it was probably something that they really did emphasize.

**Mr Monte Kwinter (Wilson Heights):** I was quite taken with the number of school buses that are on the road. Your association represents about 15,000 of the 18,000, and you're transporting in total about 800,000 students. Have you taken a look at the benefits of alternative fuel in school buses?

**Mr Babcock:** We can answer your question; it's just a question of who's going to answer. There are a number of experiences among our members with alternative fuels, and there are a number of issues. I'm going to speak probably more for myself than for the association, as I cannot be sure that we have developed an official policy on this as an association.

One of the issues that stands out in my mind is which fuel has the highest flashpoint, so that even though there is a very strong structure that protects the fuel containment system on school buses, in the event that there is a puncture, which fuel is least likely to be flammable and subsequently dangerous to the occupants? There are issues of safety that come into the proposals of alternative fuels that go beyond cost-efficiency.

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I can tell you that a number of our people experiment with alternative fuels and there are experiments that probably cover the full range of alternative fuels. I think the experience is that if there were a very dramatic cost saving that would override some of the other issues—accessibility, availability, the issues of flammability—then I would suggest that you would see larger use made of alternative fuels. I can tell you there are studies constantly being done with alternative fuels by our members.

**Mr Phillips:** Your point on full-cost accounting, full-cost recovery: I think I understand it, but maybe you could just make sure that I do understand it and what you're getting at here.

**Mr Babcock:** Okay. I'm doing all the talking here and I make apologies for that, but let me do it this way: The quote I like to use on this is Robert Anthony's, who is a classic writer in accounting. He says, and I think we all have to pay attention to this, that all costs are variable in the long run. That's the thrust or the meaning of full-cost accounting. To purchase, for instance, a \$250,000 vehicle, to take that capital cost as a sunk cost and not recognize it as a cost to the taxpayer, to the government or to whomever, is indeed not a full-cost accounting approach. It then only recognizes operating costs, and that may end up creating something of an uneven playing field, so to speak, because in the real world of cost accounting, ultimately those expenditures will be out-of-pocket expenditures, in the long run, to the taxpayers of Ontario.

**Mr Phillips:** I guess what you're saying is that when you take the private operators versus the board-owned

operators, what you have to do to compare costs is that you've got to make sure that each has all of the same elements in it: depreciation costs on the bus, plus, I guess, administration, overhead, routing, all of those things. When you do that, is there any evidence that one approach over the other is more cost-effective?

**Mr Babcock:** Yes. You are right: What the principle assumes is that you are matching costs and time frames, that you have exactly apples and apples in every parameter of measure in the accounting principle. When that's looked at by an independent study that we cited in last year's presentation—it was commissioned by our group, done by Ernst and Young—it indeed found that the cost of transporting students to and from school with school vehicles was significantly less than that of alternative methods of delivery, public transit in this case. That report is available and we're glad to share it with the group.

**Mr Phillips:** Is there a trend going on one way or the other? Is it more to the private operators as a percentage or more to the board-owned operators?

**Mr Babcock:** I am going to let Bill answer that.

**Mr Bill Heslop:** There had been a shift and a trend of students going on to transit vehicles and that's what brought about our doing that report in 1992. What's more cost-effective, taking kids to school in a dedicated school bus or on a dedicated transit bus, where again, as Brian highlighted, 75% of the cost is hidden? That's the province giving to the municipality 75 cents on the dollar to purchase that bus, and some of the operating costs also. So we saw a trend in that direction, and until there's a real full-cost accounting methodology, it could be more reasonable for the school board to put kids on transit buses.

That's all we're asking for. Put all the dollars together. What is the most cost-efficient route to get kids to and from school? But include the 75-cents-on-the-dollar subsidy that comes from the province, include the 16 to 30 cents on the dollar that includes the operating costs that come from the province, not just look at what it's going to cost the municipality or the transit system or the school board locally. Put all the costs together.

**Mr Phillips:** I thought the debate was more around board-owned buses versus your own, but it's more transit system versus your own.

**Mr Babcock:** Yes.

**Mr Carr:** Thank you very much for a good presentation. This is maybe a difficult question, but I'm asking more for a percentage range. I know a big percentage of school boards' budgets are salaries and benefits of teachers and so on, about 80% of it. Is there a ballpark range, percentage-wise, of what the costs are for transportation on most boards? What are we talking about here in terms of percentage of the board's budget?

**Mr Babcock:** In the range of 3% to 5%; that would be certainly a median if not a mean.

**Mr Carr:** So 3% to 5% of the board's budget would be made up of transportation.

One of the things I want to explore a little bit is what the province can do. The Ontario Hospital Association

was in yesterday and talked about how some hospitals are doing great things in terms of cost cutting and getting almost like a best-practices type of situation where something saves a lot of money—some nursing practices, as an example, can be explored—and hospitals can share that information to get cost cutting dramatically down.

You shared a couple of instances of some savings that had been done across the province. What can the province do to ensure that some of these models are incorporated in other boards? Do you see the provincial government taking a role in that? If so, what can the provincial government do to ensure that some of the good things that are being done, that you outlined on pages 3 and 4, in fact get done on other boards as well? How do you see the province fitting into that?

**Mr Babcock:** That's a complex question; easy question, complex answer. We see a number of ways the province can do that and we see attention being given to this by the bureaucracy at MET. The first answer that jumps into my head is that of financial initiatives to encourage these kinds of incentives for restructuring. That can take the form of restructuring in grants, which has indeed happened and may need to be re-examined—I can't speak for ministry, of course.

It certainly goes to the issue of sharing a problem with the SOs of the school board, and I can tell you that it is happening; it may need to be geared up further. There are a number of ways the province can indeed send the message that there is a need to create as much cost-efficiency in the system as is practical.

The delicate situation for everyone who is involved with this industry is, at what time do we compromise safety? How hard do we press on this gas pedal? There's always the issue of balancing adequate funding to provide high-quality service that ensures safety and security. At the same time, we're confident that the system is as efficient as it can be. So a lot of it's in funding models.

**Mr Carr:** One last question on those funding models, and you may not be able to answer this: The Ontario Separate School Trustees' Association was in talking about some of the disincentives in the financing and I wanted to ask them the question. Apparently, right now, they were saying that for the separate board, there are some financial disincentives, through the funding arrangements, for them to cooperate with the public boards. I didn't get a chance to ask them. Would you be familiar with the provincial incentives that are making it difficult, for example, for separate boards and public boards to cooperate? Are you aware of any of that at all? You may not be, but I just wondered if you had any idea.

**Mr Babcock:** Let me say this about that: We hear that. I regret that I can't directly speak to it. We hear the message.

**Mr Carr:** I will have to go back and ask them. Thank you very much.

**Mr Babcock:** Sorry.

**Mr Carr:** That's fine, I understand. Thank you for a fine presentation.

1140

**The Chair:** I'd like to thank the Ontario School Bus



Association for making its presentation before the committee this morning.

As I indicated yesterday, we have some housekeeping concerns we must deal with. I'd first of all like to remind the committee members that the clerk has placed before you a copy of the submission from the Insurance Bureau of Canada, which was the group that cancelled this morning.

**Mr Carr:** Was there a reason they gave for cancelling at all?

**The Chair:** Not that I'm aware of.

With respect to writing our report, we need some information to guide the committee. Does the committee want to forward a copy of the finalized report to the minister at the same time as it is being sent for translation and printing? Is everyone agreeable to that?

**Mr Phillips:** I don't have a problem with that.

**Mr David Johnson:** That's fine.

**The Chair:** We have an agreement on that.

The committee concludes its meetings, as we all know, on Wednesday, March 1. Is March 3 an appropriate date for the clerk to receive the final documentation from research in order to forward it to the minister and for translation? These questions, by the way, are some concerns that the clerk has raised.

**Mr Sutherland:** I think just to clarify what you're saying then for the March 3 deadline, if there are going to be submissions, dissenting reports etc, March 3 is the day they should be in.

**The Chair:** That's right and let me add, if so, if the opposition parties are attaching a dissenting opinion and they wish to have that opinion forwarded with the report to the minister and for translation, the clerk would require these documents on March 3 as well. If we're going to use that as an arbitrary deadline, is March 3 agreeable to everyone?

**Mr David Johnson:** Fine.

**Mr Phillips:** The only thing I might say is whether we shouldn't give ourselves till March 6, the Monday. We'll sit down for our final drafting of the committee's report on March 1 and that doesn't give much time, if we want to submit a dissenting report, to get it done and out.

**The Chair:** No disrespect, but I would presume that any dissenting report is being worked on as we go through this process anyway. Would that not be correct?

**Mr David Johnson:** You've got it done already, haven't you, Gerry?

**Mr Kwinter:** We had it done before we started the hearings.

**The Chair:** I wouldn't doubt that either.

**Mr David Johnson:** It's just going to be last year's report.

**Mr Phillips:** I'm just saying that in the interests of really one day, Monday, March 6, would be preferable to Friday.

**Mr David Johnson:** That's fine by us.

**Mr Sutherland:** If you want it Monday, that's fine.

**The Chair:** I think I hear agreement among the

committee members and we'll make it March 6.

**Mr Sutherland:** So 4 o'clock on the Monday then?

**The Chair:** Yes, 4 o'clock, Monday, March 6.

If it's not received by this date, the opposition parties should provide the clerk with both English and French copies of their documents for printing, so I would suggest then that the opposition parties understand that if they get their dissenting reports in in time, they will go through the process as with the report.

The final point: Is it the wish of the committee that when the report is printed, it be tabled with the Clerk of the House prior to the return of the House?

**Mr Sutherland:** Agreed.

**The Chair:** Everybody agrees.

**Mr David Johnson:** When is the House returning?

**The Chair:** That's a very good question, Mr Johnson, one that the Chair is not able to answer, unfortunately.

Another concern that was raised by the clerk: Rather than going to the cost of translating and appending the final summary to the report, would the committee be satisfied to make a notation at the back of the report indicating the summary is available from the office of the Clerk? Is that understood? Would you like me to repeat that again?

**Mr Phillips:** That sounds fine, so you don't have a big, thick document. Is that right?

**The Chair:** Yes, that's right.

Okay, everyone's in agreement with that?

**Mr David Johnson:** That's agreeable.

**The Chair:** Then that concludes our housekeeping duties this morning.

*The committee recessed from 1144 to 1402.*

CANADIAN INSTITUTE  
FOR ADVANCED RESEARCH

**The Chair:** The first presentation this afternoon is by the Canadian Institute for Advanced Research, J. Fraser Mustard, president.

**Dr J. Fraser Mustard:** Thank you, Mr Chairman. It's hard to comment on the budget, so I decided what I would try to do in about 15 to 20 minutes is, with the charts in front of you, show you the background from which I'd try to appoint any discussion about a budget. It may or may not be clear.

The difference that I would have with the presentation of the current documents about the budget is that they use the term "economic growth," but they're talking about business cycles. I want to talk about the deeper issues of economic growth and what they mean and put before you some tough choices that governments are making and will continue to have to make regardless of what happens in terms of political changes or known changes over the next 10 years or so. The issue that I'm talking about is not a one-year cycle; it's a 10-year cycle or longer. So if I may, let me just sort of flip you through these charts quickly in terms of what they mean.

Most of you have a sense that the wealth of the western countries began with a thing called the Industrial Revolution, which was a major piece of what we call

deep and broad technological change. We had a second one at the turn of this century, which was electricity for steam power, and we're in one now, which is chips for neurons. It's when you understand that and the issues around economic growth with that kind of situation we all face that it seems a bit different than if you approach this from a business cycle framework.

The next little chart shows you how the western countries became rich. For those of you who have western roots, it's not western Canada; it's basically western countries, and the two driving forces are both institutional innovation and technological innovation.

One of the burdens that comes up in public policy is your rules and regulations that may or may not enhance or hamper institutional innovation. It's an extremely important aspect of deep and broad technological changes.

When I use the term "deep and broad technological changes," I'm not referring to minor technological changes or technological changes that don't have huge effects. Chips for neurons have a huge effect. They're already affecting everything we do and it'll take at least another 10 to 15 years before they pass through their full impact on our society with a large amount of institutional change.

Adam Smith gets quoted all kinds of ways, but he has a chapter which most people don't read, the chapter on productive and unproductive labour. In it he correctly classifies my profession as menial servants. I'm a physician by background. We don't create wealth; we consume wealth. He makes a very sharp distinction that it's the productive side of your economy that's crucial to sustain what he called the unproductive side. We've switched the terms, to make it less offensive to my profession, to primary wealth creation and secondary wealth creation.

Governments have huge problems handling this and provincial governments have major problems handling this because most public financing at the provincial level is for Adam Smith's secondary wealth creating sector, and therefore it's very dependent upon how well the primary wealth creating sector actually works. That distinction is not well understood within our political structures and policy advisory structures. It's in Adam Smith, if you want to look it up.

It's portrayed in this little diagram, and that is two rectangles. This is about where people used to work in Canada five years ago. About 25% worked in the upper left-hand quadrant, which is tradeable goods and services, which is basically your source of income generation or wealth creation. I want to make certain. To create the income flows in a society you have to have the instruments to do it.

The lower left-hand box is a good and a bad box. These are dynamic services. They're finance, communications etc. They don't do very well if they don't have something to serve. That's pretty obvious.

The upper right-hand box is where a large chunk of your activities go to: it's the publicly financed sectors of our society, which are very important for the quality of

the society and the infrastructures etc but become badly handicapped if the upper left-hand quadrant isn't working well.

The lower right-hand quadrant is the small shopkeepers, retail and leisure people who are very dependent upon the entire dynamics of the system.

A simple way to think of that is if you're thinking of Kapuskasing with a pulp and paper mill which employs 1,000 people. If that pulp and paper mill goes down, the whole economy of 11,000 people goes down. Provinces are no different. So one of the things you need to think about in your budget themes is how well are you affecting that upper left-hand quadrant; how well are you distinguishing the businesses in each of those three quadrants, because policies for one may be detrimental to the other etc.

Let me take you through one transition period. It's the only one where we have enough historical evidence to understand it. None of us in this room has lived through a deep and broad technological change which is transforming. The only one we have reasonable documentation on is the transformation caused by electricity coming in to replace steam power. What this next chart shows you is industry power sources. You'll see how long it took for electricity to replace steam power. It didn't occur overnight; it took place over many years.

When societies are going through these transitions in the instruments that allow them to create the income or wealth flows that they need, those transition points have enormously complex effects on society. I'm arguing, obviously, that you're in such a stage at the present moment, and so the policies that you develop should be related back to the nature of this change to the best you can understand it so that you don't hamper the adjustments but you facilitate the adjustment.

The next chart is, for those of us not trained in economics, a little hard to grasp, but one way of looking at your capacity to create wealth through your income flows is to look at a thing called total factor productivity. You'll notice that in the United States, during this transition period at the turn of the century to electricity from steam, total factor productivity was flat. I'll show you a little later on that Canada has been dead flat for 14 years, and that's a very important signal too. It fits that we're in a transition at the present moment.

You all know income changes that are taking place in society and it's interesting that in the clerical labour income in the United States during this period which has been tracked, the period of the transition, wages and constant dollars declined substantially during the transition period. I'll show you again that you can see the same phenomenon occurring in our society at the present moment.

So much for the one transition we know a little bit about. There may be some lessons that we should apply. I don't know how you apply them to an annual provincial government budget, but you should try to think within this context, if you can.

The best-kept secret of economists is they do not understand the determinants of economic growth. My



statement for that happens to be the Economist magazine, which is a suitable magazine to make the statement. The reason I say it is because this article—which, if you heard me before, I emphasized is enormously important—points out that if you understand the true determinants of economic growth and separate those from business cycles, your public policy framework will radically change. It's worth reading the article. But the point I want to make is that I'm going to talk about economic growth in the sense that they're talking about it, not in the sense that's in the text that's come out in the pre-budget document. It isn't talking about economic growth in the business cycle framework. Is that distinction clear to everybody?

1410

The implications of it are straightforward. If you turn to the next chart, there are four kinds of economies according to Porter, who did a study of Canada: factor-driven, which is a resource-based economy; innovation-driven, which is the lower left-hand one; investment-driven is low wages and technology—by the way, going on, it's the middle one—and then on the right-hand side is wealth-driven.

It's important to understand those different kinds of economies because we are, hopefully, trying to shift Canada from a factor-driven, resource-based economy to an innovation-driven economy, from a system where you're used to financing objects to financing ideas. If you talk to anybody working with ideas, their single biggest problem is finding ways to get ideas financed now. To the credit of this government, it's taken initiatives to get there. No government has taken enough initiatives for the people who control the private pools of capital to move in yet. That's an issue that needs to be addressed and is not being addressed well in our society at the moment.

On the right-hand side is the most dangerous form of economy. That is when you allow the financial pools of capital to play with money. The global currency-trading markets are playing with money; they're not investing in wealth creation. At the present moment, our incentive structures do not differentiate between a wealth-driven business enterprise and one investing in wealth creation, and that basically is going to require changing the tax structures of the country if we want to come to grips with it. So at the present moment our incentive structures are not good, in my judgement, for building the new economy.

Diagrammatically you can see all this on the next chart. Wealth creation on the vertical axis, and I'm using it loosely in a sense but this is how you create the income flows that keep your system going, against time. A neoclassical economist would have the black line. Economies just keep growing because neoclassical economic theory does not include the concepts of economic growth as expressed in the Economist article.

When you put the power of technological innovation into that framework in terms of creating the resources we need, you can shift the slope to that upper dotted line, if you follow that chart. The lower dotted line is a wealth-driven economy. That's an economy that plays with money. The lower one is what Great Britain slid into at the turn of this century, and if you want to historically

analyse what happens to a society that fails, read the history of Great Britain. It's awesome, it's brutal and it's real. Canada has slid somewhere between the black line and the lower dotted line. That's Porter's analysis. We need to get above that black line.

The wealth base you have to work with as the government has slid by about 30% since 1975, so if you try to increase taxes you're doing it on a smaller wealth base and people are going to complain. Understanding this dynamic is enormously important in terms of public policy and how you move things forward.

Just to show that Canada is not the only nation caught in this, you can track European countries. This is the Morgan Guaranty Trust data. It's showing that in European countries, about 1974 or 1975, this break, this change in economies begins—taking you back to the electricity-steam story—and you can see that the European public sector debt climbs and the unemployment rates climb, all in keeping with this.

The next set of data, if you've never seen it, should jar you. This is our friend "total factor productivity." Remember, we saw it for the electricity story. What you now find is that for the period from 1979 to 1990, and the most recent federal government document, the purple document, brought it up to date to 1992-93, the story is still flat, which means that this country, as measured by that device, has not been moving into new wealth creation. It's flat.

The frightening thing is, there is a whole bunch of other countries that are handling the adjustment better than we are. So that says, how do you turn that around? If your budget policies don't come to grips with that, you've failed. It's not an easy task but you've got to think about that question: What are you doing that's going to move that up?

In this document they do not fairly show the commodity price index change; they truncate it back to 1980. The next chart shows you, if you truncate it, take it all the way back to 1972 in constant dollars, that the value of natural resources has declined by over 30% in constant dollars in our society. That was part of our major primary wealth base. In this transition, what we've lived off has diminished on us, so we're caught in a very difficult situation on this change.

The next set shows you some interesting perspectives. Government spending in Canada, listening to the rhetoric generated by you good politicians, generated by the media set, you would think Canada happens to be a huge public spender. The truth is, if you look at the data from the OECD and other people, Canada is not the biggest public spender. We're a moderate public spender historically. But if you look at the next chart, we've managed to generate the largest public debt.

That paradox should hit all of you. It demonstrates more clearly than anything I can give to you that our wealth base has declined but we've maintained our public spending and generated a debt. Now, how that works is that your GDP measures your outputs in your primary wealth creating sector and your secondary wealth creating sector. If you sustain your expenditures in the secondary sector, publicly financed or otherwise, and your primary

sector is not growing, you have to borrow to sustain those expenditures. In effect, if you do that, you maintain your public expenditures in this case, but because your primary wealth base is not increasing you actually substantially increase your debt. So you have a misnomer when you look at growth simply through GDP. That's the point I'm trying to make here. It gets a little bit confusing, but you see the paradox that stands out very clearly in these data.

The next one shows you a simple analogy which is very important, and that is that what you produce is your wealth. By the way, Canada has 10% unused productive capacity. If you cranked it up, you'd probably surmount a lot of our problems. Somebody should ask the question why we don't crank it up, what are the barriers to it.

Your expenditures are your consumption plus your investment, public and private, and that leaves the current account balance. The current account balance means many things, but it's a measure of your external debt; that is, the debt owed outside the country.

The next chart shows you the extraordinary feature of Canada. We have accumulated the largest external debt of any developed nation. That's impressive, because you and I, privately and publicly, have borrowed to sustain a standard of living since 1975 that we couldn't sustain.

The next chart shows you it harshly. The chart should read "Net Foreign Debt." The way this was done, the government document's called it "International Investment Position." Look at where Canada sits in its external debt as a percentage of the GDP. Not even Italy comes close. This piece of information, to me, is the most frightening information, because that drives your interest rates, the currency value of your dollar etc. Somehow or other we collectively have to get that turned around—quickly, not slowly.

You then have this simple little theme I gave you at the beginning: Public policy and budgets that do not focus on the wealth-creating sector, which I'm calling tradeable goods and services, is a dangerous policy. Public policy that does not address the question of playing with money is dangerous policy. We have to face up to those sayings and create incentives to drive that upper left-hand quadrant. In the meantime, with diminished resources you have to sustain the upper right-hand quadrant, which is the tough task.

Just to make it clear to you, that you all know that these changes are pretty uniform, there are the unemployment rate changes in Canada. If you track it back to 1975, it's been climbing with business cycles changing it; we're in another cycle now changing it. But if you look at real wages, the next one, look where Canada sits in terms of Europe and Japan. Our real wages have not increased, which is again a reflection of this effect on our country.

The change in average income in Canada by age group is very frightening. This document correctly records the problems youth are having. Just look at it from an income distribution function, as you'll see, the change in average income. My age group is doing all right, thank you.

**Mr Carr:** What's your age group?

**Dr Mustard:** Oh, you heard me. Yes, you can quote me. But look at what's happening to the child-rearing group. Look at what's happening down there. That should frighten all of us. That has huge effects throughout our system. In a public policy sense, I hope we will make certain that whatever you do doesn't damage the capacity of that generation to handle the next generation.

I'll conclude. The two major tasks of the government are to create a climate that fosters the establishment of the new kinds of enterprises, and you should check through your budget proposals to make sure they do that, and the second thing is, with diminished resources maintain a healthy social environment; your toughest task of all of them, doing that.

Let me just flip you to one last thing to think about. I won't worry about the other things. If you come to the map of Italy—and David Crane wrote a marvellous article on Putnam in the Saturday Star. Obviously, I'm a Putnam fan. It's a map of Italy. Putnam talks about civic societies versus uncivic societies. Civic societies have enormous capacity to compromise and adjust and to adapt to the changes that are required. You have to watch very carefully that your policies do not create uncivic societies, because you create vertical structures in those communities that prevent creating the horizontal structures Putnam talks about.

I'm not sure any government has ever tested its actions against those themes, but I think if we're going to pull out of this adjustment and with diminished resources maintain stable social environments for our young, particularly children, we have to look very carefully as to how effective policies are in helping strengthen the civic character of Canadian and Ontario communities. I think it's a very important measure for you to put against it.

I won't spend any more time on it. I've taken too much time already, Mr Chairman. I'll stop and let you yack back at me.

1420

**Mr Kwinter:** Dr Mustard, as always, your presentations are fascinating, and I have to apologize. We should spend a day with you examining some of your theories and concepts.

I have no problem at all with what you advocate, and I've had opportunities to discuss this with you in the past. The problem that I have is that it seems to me that what we are dealing with is sort of nibbling at the edges to sort of deal with the political reality and there isn't a real commitment by anybody to really restructure the system to meet the kind of goals you've set out. How do you feel about that?

**Dr Mustard:** There are days in which I'd agree with you. Your handicap is that you go through an electoral process and you have to get elected and you have a public that may not understand what I've said.

But let me put a positive spin on it. We have talked with communities across this country, including those in Ontario, ranging from small communities like St Stephen in New Brunswick to large communities such as Toronto and Vancouver, to very mixed audiences. If you take the



time to provide this information to those communities, they can understand it.

The single biggest thing we have to do—and it may not be able to be done; we'll go through the political process—is to actually transfer that understanding to the communities of Canada. They can take it and make use of it, which will actually change the political process. So I think change is possible, but it's going to require a much heavier involvement of communities and getting their understanding to facilitate the point that you're getting at about how do you get the real commitment, a long-term commitment, to make this move.

**Mr Phillips:** This is very interesting, and as Monte said, we could spend more than a day with you. One of the challenges is information. For example, we get our job picture using kind of the old definition of manufacturing, resource, services. In many of the emerging industries, your innovation-based technology would be I think in the service sector, not in the manufacturing sector. So I think we run the risk of, if our information systems aren't brought up to date, we can start to make the wrong judgements, and that's your chart here on goods, dynamic services and consumption. I have a feeling we will not identify some of the future goods because they will not be in "the manufacturing sector," they will be in the service sector.

Is there any validity in that point of view, that we're going to have to, in addition to understanding this, change the information systems that we have, to measure the changed economy?

**Dr Mustard:** Absolutely. The single most important thing is to get a statistic that actually measures your primary wealth-creating capacity. That requires a revolution in thinking. I know premiers of other provinces who understand this and cannot get it across, to get the GDP measure, which can give you false impressions, out of the way and put into a different context. So we are up against a substantial information problem.

**Mr David Johnson:** Thank you, Dr Mustard. I'm looking at your chart that you expressed I think the most—one of the two or three you expressed the most concern about, which involves the G-7 countries and the net foreign debt. You pointed out that Canada is by far and away isolated in the sense of it looks to me as if about 45% of our debt is held offshore.

**Dr Mustard:** Private and public debt.

**Mr David Johnson:** Private and public, that's right. I think we should bear in mind that it is a total debt picture, private and public; that's important. In Italy, which is next in line, it looks to me as if it's about 12% by comparison.

Here in Ontario, the government has introduced the Ontario savings bond within the last couple of weeks. One of the goals, I guess, was to repatriate the debt. I wondered if you had any views on that as a vehicle for making any kind of a dent in this dreadful situation.

**Dr Mustard:** It'll make some dent, but if you look at those figures, if you want to rebuild your wealth-creating capacity, then you have to find some way to stop your economy from being buffeted by the financial marketing

part of the economy, what I call the fiscal roulette group. Because as long as you allow that to dominate your thinking, then your interest rates and currency value structures are driven by the needs of that community, whereas if you come to your primary wealth creating capacity, you need a differently valued dollar and a different interest rate and you have a real conflict there in our society at the moment.

**Mr David Johnson:** I think the problem we face in Ontario, the situation isn't quite as bleak as the Canadian level, but about 60%, I believe, now of the Ontario debt is offshore. On a year-by-year basis in total probably 35% or thereabouts, I would think, of Ontario debt is held overseas. The investors overseas are looking for a return on investment commensurate with the risk. If they perceive there's a risk in Canada because of political instability, let's say, or a high level of debt, then we're at the beck and call, I suspect, of those countries.

When I flip to another chart, where you talk about the average income and those under 25 years of age having significant problems in terms of their income, much below the average of the other age groups, and the tragedy, I wonder if these two are linked. I wonder if it is our economic policies, our debt, our deficits that are causing the squeeze in the economy that's hurting those who are under 25 years of age so they're not being able to take their rightful place in our economy.

**Dr Mustard:** Yes. When you go through a complex transition, the most vulnerable groups are mothers and children. That's well documented. That affects you in a variety of ways. So as your wealth base ceases to stay in balance with the rest of the world, your own resource base to support your society declines. The people who are older, who have secure positions, will stay in the system longer. People coming in have less opportunity to come in until you build your new economy. So you're absolutely right, and the historical description I went through, and we'll take you through in more detail, shows quite clearly that when economies are going through these transitions, the young pay a very high price for them unless economies or societies are very sophisticated in handling them.

**Mr Sutherland:** Thank you, Dr Mustard, and like the others, it's a pleasure to have you in here and we could use certainly more time. I thought it was interesting to note, on the one chart you didn't get to, spending on research and development in the G-7 countries, and certainly note, when you look at non-profit organizations, government and business, we see that compared to countries like Japan and Germany and France the business community in Canada seems to be well behind in terms of the amount it's spending on research and development.

I guess that leads me to the other issue that I think Mr Phillips brought up too, about measuring some of the new GDP. I think I saw an article where Stats Canada is really trying to figure out how to get a better handle on measuring some of these new innovations and people doing home services through their computers and whatever, having a difficulty in measuring that.

I guess the other point I wanted to bring up then is

related to this, and I did hear you mention that, of course: how we finance ideas. I recall from a presentation I believe you and Mr Peter Maurice did for the members here and talking about that, that our traditional financial institutions aren't good at financing ideas because of course you normally have to have some collateral to have financing, but if you've only got an idea, you don't really have the collateral. Do you feel that we're making any progress on that and do you have any more thoughts as to what are mechanisms that might be available to support the financing of new ideas and new research?

**Dr Mustard:** From zero discussion of this theme in 1985 we've come to substantial discussion. The fact that you even ask the question is a tremendous movement forward. So in terms of getting discussion on the issue, we've advanced. In terms of the strategic ways to implement it, we've got a long way to go because you've got to get the understanding and then you've got to come through huge institutional change to succeed, because to be able to finance uncertainty, which is much more complex than risk, the financial institutional structure has to become married into the groups doing that. Even the financing of risk is a problem. If the reward structure does not give a high reward for the person who takes that risk and the capital gains tax structure etc doesn't recognize that the creation of wealth is an important function and totally different from playing with wealth, then it's hard to drive the institutional changes that are necessary to make that work.

You're quite correct to have picked up that chart, and the chart before it is even more important because it shows where your investment strategies should be. What it says is as long as you invest in enhancing your productive capacity, you'll get rid of that external debt. If the public funds and the public financing aren't driven into that lower base in the right manner, then you'll never turn that around, because you won't create the idea flow that's necessary to move it.

The province, through two governments—it's non-partisan—has done some extraordinary initiatives such as the centres of excellence program. They're beginning to bite. They'll take a while to bite. What they've done is they've demonstrated in spades what you've just said. The industrial capacity to take those ideas and take them to market is still weak and we will not solve that until we bring in the financial and institutional capability to do it. So anything you can do in a budget to promote that private sector change to come into financing ideas would be a boom.

1430

CALVIN BRUNER

**The Chair:** The next presentation this afternoon is by Calvin Bruner, a chartered accountant. Please come forward and make yourself comfortable.

**Mr Calvin Bruner:** Good afternoon. I appreciate the opportunity to be able to speak to the committee prior to the budget. I'm here solely as a taxpayer and resident of the province. I'm not representing a special-interest group or any group for that matter. I'm certain over the course of the last two weeks you've heard from many groups who have their own agendas and mandates to fulfil. I

believe I bring a somewhat unbiased view that should be given some consideration.

I am somewhat concerned that the committee is hearing mostly from groups. Not that their views shouldn't be heard, but I'm concerned that individuals are not showing up to these hearings, and I hope anybody watching this will in the future have their views made known.

I have a few concerns prior to getting to my main reason for being here that I'd like to go over. The first is with respect to the debt of the province. I'm sure many groups have expressed their concern and I know all provincial parties have taken the issue as very serious. It's an election year. I just ask that the parties all please don't make any promises that will cost us money. It's not something we want to get into at this point.

Not only that, I think the government needs to take steps immediately to reduce and eliminate the deficit. To do otherwise will be extremely shortsighted. We are living on borrowed money right now and it doesn't make any sense. If we ran a surplus to reduce the debt we'd have a roller-coaster effect that would start to increase the interest savings in the province and allow us to build and develop social structure in the province.

My second concern has to do with the recently introduced province of Ontario savings bonds. It's an interesting idea, but I think it's a little hypocritical for any government in this country right now, and I'm not saying Ontario is to be blamed, to say it believes in small business given the extent to which government is competing with business for the dollars.

With the Ontario savings bonds program, you're borrowing in your own backyard. I understand the concerns about borrowing from foreign investors, there is a legitimate concern there; however, by borrowing in your own backyard you are reducing the dollars available to smaller and medium-sized businesses in Ontario that cannot go to foreign markets. I would suggest that maybe in the future the Ontario savings bonds program should be looked at again and perhaps eliminated.

The third and last concern I want to bring to your attention is the public accounts in the province and my perception that the government has been attempting to enter into transactions solely for the purpose of improved financial statements or an improved financial picture. I find that to be a waste of time and money. There is no economic reality to transactions that only involve moving assets into separate corporations or setting up corporations to do sale leasebacks with the government. In audit circles, the substance of the transaction takes precedence to the form of the transaction, and I don't think window dressing of the financial statements helps anybody in the province. I'd like to see an unqualified audit opinion by the Provincial Auditor. The integrity of those statements is very important to me.

As I've mentioned, I did want to see a reduction in provincial debt levels. In that regard, I did not come here empty-handed. I actually came with something for the committee. What I am proposing is the harmonization of our provincial taxes, bringing them in line with the two main federal taxes, the income tax and the GST. That is my *raison d'être* for being here, and I hope you will give



this consideration. It can save real dollars without any cuts to program spending.

We currently have two tax administration and collection systems—we have the federal system and we have the Ontario system—and this could be and should be reduced to one system. By having the federal government collect Ontario's taxes, Ontario would not need to maintain a costly and redundant tax collection system. Ontario could still adjust the rates to meet its needs, but you need the same tax base on which to collect.

Corporations tax the federal government already collects, in a form, through the Income Tax Act. Our corporations tax of the province is substantially the same. In fact, to give you an example, the federal government already collects provincial income tax for individuals in this province. There is no reason that the corporations tax, which is mainly comprised of income tax based on the federal Income Tax Act, could not be collected and administered by the federal government.

In fact, corporate income taxes are collected by the federal government in all but four provinces already. The federal government already has the auditors and systems in place to administer tax collection. If Ontario is going to collect tax, it should at least be done in the most efficient and cost-effective manner.

There are very few significant differences between Ontario's corporate income tax and the federal income tax. Most of the differences arise in the calculation of Ontario's corporate capital tax, which should be eliminated just for the sheer burden it puts on companies that are required to deal with it—not the tax, just calculating the tax.

Keep in mind that you are also dramatically reducing the burden on business: one less tax return to file, one less accounting fee to pay and one less audit to undergo.

The estimated savings available to the province are \$26 million.

Retail sales tax: Now that we have a national system of sales tax, the GST, that the federal government is administering, it is time for Ontario to use that system for the collection of Ontario's retail sales taxes.

There is no question the two taxes are quite different. That being said, is the difference worth the \$25 million it costs to collect? Is it worth the additional burden to business of preparing two sales tax returns each month and undergoing two separate audits?

There are some major challenges to harmonizing the GST and the retail sales tax. Those challenges lie in the fact that cooperation among all the provinces is difficult, if not impossible, to achieve and that under the GST purchasers are given credit for GST paid. Naturally, Ontario would not want to give credit for purchases made outside the province, and that causes a bit of problem with harmonization.

In order to overcome the problem without adding further complications to the tax system, pending all provinces agreeing to a national sales tax system with the federal government, the provincial portion of the tax could be based on gross revenue, based on GST sales, with no credits for purchases. That would mean that for

every sale made by an Ontario company, there would be tax, whether the sale was made in or outside the province.

This form of gross revenues tax would involve structural changes to the tax system that would put many high-volume, low-margin businesses at a disadvantage, and that's clear. However, there are many advantages to be received from this system. Wholesalers, manufacturers and distributors would be subject to the tax, whereas the retail sales tax presently only applies to consumers. The tax would certainly be passed down to consumers in one form or another through the system. The only question would be whether it would be passed down to Ontario consumers or consumers in other provinces or countries.

Exemptions contained under the GST legislation for foodstuffs and corporate reorganizations would also apply for this new system, as only GST-qualifying sales would be subjected to a revenues tax.

The estimated savings available if we were to eliminate the collection of retail sales tax in the province are approximately \$25 million.

Property assessment is the next tax, and while the province itself does not collect the tax, it does administer the assessments. There is no federal tax that has as its basis the value of property, and we should probably be thankful for that. Property tax is an archaic form of taxation that should be abolished.

Property taxes have been described as unfair, as they are unrelated to the ability to pay; unrealistic, as they are unrelated to benefits; and unsuitable because they support services unrelated to the property.

So why do we have property tax? Why are we continuing to collect half of our tax dollars in this province based on an unfair tax? While consideration has been given to changing our property tax system, no one has considered abolishing it, and unfair, arbitrary taxes should be abolished.

Some of you are possibly wondering why I'm dealing with this tax. As I said, the province pays the administration of the assessment process, and the process costs more than the costs of collecting all our other taxes combined.

Tax should be based on a quantifiable basis, not a nebulous market value concept. If property tax were to continue, it should be based on concrete, non-changing values, such as frontage, or a flat rate per business or household. At least then there would be some correlation to services provided.

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If any of you doubt the tax should be abolished, you can speak to Metro area residents and businesses. I'm sure they'll make that quite clear. They have problems with the property taxes. Municipalities within and outside of Metro have problems. There's a horrendous amount of wasted tax dollars spent by this province in administering the system. It is unworkable the way it is.

Rather than collecting property tax, I would suggest an increase in sales and/or income tax while providing appropriate credits to those at lower income levels. As mentioned above, this can be combined with a certain

frontage or flat rate tax collected by municipalities, which would then take into account the municipal services utilized. Income received by the province through an income or gross revenue tax would then be allocated to the various municipalities on some reasonable apportionment basis.

The estimated savings available to the province by eliminating the administration of the property tax system are \$135 million.

The employer health tax: I am not concerned with eliminating it, but it's important to eliminate just to get rid of the support services that we now have in place for our tax system. If we're going to follow through on tax harmonization, we should get rid of all the taxes and put them all within a federal structure. As I'll note later, there are substantial savings above and beyond the savings for each individual tax, as there is no requirement for all the support services such as public relations, appeals and collections.

The simplest way in which to eliminate the tax would be to incorporate it within the GST/gross revenue tax I mentioned earlier. The tax is already paid by business and the estimated savings available to the province are about \$11 million.

Without a doubt, the federal tax system both for the GST and income tax is a better-run and better-managed system than Ontario's. More information is available to the public on it; more people have knowledge of the system. It's not surprising given the size of the federal system. There is a comprehensive appeal system in place and taxpayers generally know their rights and obligations.

By harmonizing Ontario's taxes with the federal tax system, Ontario's taxpayers will receive better service. In fact, the harmonization of Ontario's taxes would eliminate expenses for program administration, tax appeals, special investigations, collections, building rental, public relations, client services and the taxation data centre and information systems, which would save the province approximately \$38 million.

I provided each of you with a quick summary of my thoughts when I went through this recently, along with a letter from the Ministry of Finance verifying the savings. In fact, I think the potential savings are in excess of the amounts shown.

Premier Rae recently suggested that Ontario be willing to consider giving up its right to collect sales tax in exchange for a higher percentage of the income tax. I think that's the right way to go, at least to attempt a harmonization. However, I think that since it involves giving up rights, there's unlikely to be any all-province agreement. I would encourage the government of Ontario to participate in a national GST system if it's at all possible. Pending agreement on a national sales tax with all of the provinces, however, Ontario must act unilaterally to reduce the duplication.

If all of the taxes I've just discussed were implemented and the changes made and harmonization completed, there would be savings of approximately \$225 million to the province. I recognize that our deficit is in the billions of dollars, but \$225 million is still not insignificant. It

may save a few programs here and there, and it doesn't harm any social programs in place.

The tax harmonization measures proposed, while creating change in the tax system which no business would like, would bring about savings for many businesses through reduced tax compliance. More importantly, the reduction in the government deficit would reduce the need for future tax increases. All in all, there is no doubt that there are major benefits to tax harmonization and this is one of Ontario's few opportunities for a win-win situation.

Even if some of the more innovative suggestions such as creation of a revenue-based tax or abolition of market value property taxes are not followed through, there is absolutely no reason for Ontario to maintain a separate corporations tax. It's ridiculous. It's based on the federal tax system as it is right now and it can be moved over very quickly. The Ministry of Finance needs only to examine its own house to see where significant savings can be achieved.

That's about it. I'd like to thank you for your time and I hope you'll read the package.

**Mr David Johnson:** Thank you very much, Mr Bruner. You've raised many good ideas, I'm sure, and I think directionally in terms of reducing government costs I can't disagree with you at all. I would ask for your views, though, on the income tax in that you have indicated, I think, that the income tax should be used as a vehicle—that means increase the income tax—to offset some of the property tax, for example. I think you've indicated that you would recommend a different property tax assessment system and use income tax transferred from provincial governments to municipal governments to assist in that realignment. Did you also recommend a reduction in the sales tax?

**Mr Bruner:** Yes.

**Mr David Johnson:** And the income tax may pick up some of that.

Now, just let me say that one of the problems that's been brought to our attention is that the income tax in Canada is the highest as a proportion of GDP of all the G-7 countries—and considerably higher, well above the norm; well above the United States, for example, which is just on our doorstep. That's one problem.

The second problem is that we have an underground economy which the home builders will say involves over 40% of home renovations and that the underground economy is largely because people feel the personal income tax already is too high and that the underground economy is being stoked by high tax rates.

Thirdly, once you get above the 50% marginal rate on your income tax, we were told yesterday, it's a disincentive for people to work. I wonder, within that context, do you feel there's still room to add more on to the personal income tax?

**Mr Bruner:** Just to make it clear, when I talk about the income tax, I'm not talking about the personal income tax. The personal income tax is already collected by the federal government. As far as I'm concerned, it's harmonized. I don't have a problem with that.



What I'm concerned with are the corporate income taxes and corporate capital taxes, which could easily be put into the federal system. Our corporate tax rates are not out of line with US rates in general. There are some higher, there are some lower, but in general they are reasonably in line.

I am suggesting that if we're going to get rid of the property taxes and move it to another tax base system, yes, it is possible some of that may be recovered through a slightly higher income tax. I think realistically it should be recovered through a revenue-based tax, based on sales. That's probably the best way to recover it, and you really do have to recover your property taxes.

But if you have a company that's looking at investing in Ontario, wanting to set up a plant in Ontario, it looks at all taxes. They'll look at their corporate tax base, they will look at the property tax they're going to have to pay in this province, they'll look at the revenue taxes they're going to have pay. This really involves an adjustment as to where they pay the tax. I'm saying, take it out of the property side, unless it's just a straight frontage-type base of tax, and move it into a revenue-based tax or, to some extent, an income tax.

**Mr David Johnson:** Would you have the same sort of property tax then for a business that's located in a very prime area, perhaps a retail store on Yonge Street by a subway station with a certain frontage, and a store in the outreaches of Scarborough in a very lightly travelled area with the same frontage? They would have the same sort of property tax? Is that the concept that you're proposing?

**Mr Bruner:** Yes. We have to get away from the market value concept. Market value doesn't work because it's always changing. You're going to always spend the money to try and administer a system which is going to be inherently unfair because all the market values are based on an assessor's opinion. It may or may not be right. But I can get you three assessors, there'll be three different opinions.

You cannot base it on that. You can go to a flat rate for businesses if you want to, a flat rate plus frontage, and that's fine. That could be administered by the municipalities because there are no ongoing changes in values that would have to be administered by the province and we wouldn't have to spend \$135 million trying to keep up with assessed values.

**Mr David Johnson:** That's an interesting concept. There are certainly different points of view and there are many people who would agree with your view of market value assessment. However, there would be many other people who would point out that it's almost universally implemented across the world.

I was in a forum where there was a gentleman from India and we were talking about assessment. I was outlining some of the problems of market value assessment and he took me to task because he had been an assessor in India. They had a market value system in India and in his view it works quite well. So there are certainly different kinds of views. But certainly in Metropolitan Toronto the assessment is in a mess as well.

**The Chair:** Mr Johnson, we have to move on.

**Mr David Johnson:** Thank you for your deputation.  
1450

**Mr Sutherland:** I just wanted first of all, Mr Bruner, to let you know that the financial statements of the province were audited this past year and there were no qualifications from the Provincial Auditor on the statements. So that has occurred.

**Mr Bruner:** Yes, I understand. I appreciate that too. I'm concerned with the integrity and I'm pleased it's there.

**Mr Sutherland:** That's fair enough. I just wanted to put on the record that has occurred.

You have some very interesting proposals here in terms of how to change the tax, so I just want to clarify some of the points. Basically what you're saying is the corporation tax should be like the income tax in terms of the province taking a percentage of whatever the federal rate is.

**Mr Bruner:** It already basically is. The income tax for Ontario—if you look at any budget material that comes out from the province, they say, "We've adopted the following measures in accordance with the federal income tax." It's 95% equivalent. There's a 5% differential there that the province has various small and sundry items it wants to enhance in the province. The cost of those enhancements is not worth the collection of the tax or the taxpayers' cost of administering the tax.

**Mr Sutherland:** Okay. Could you just elaborate on your definition of "gross revenue tax"? Are you really talking sales tax or are you talking like the concept of the flat-tax system?

**Mr Bruner:** It's a hybrid, in a sense. The only way to collect or only to harmonize our sales tax system is to go to the GST. That's the only system that's out there to harmonize with that makes sense, with the federal government. The federal government, in its GST system, allows businesses, where they spent GST, to obtain a credit for it.

We can't do that in Ontario because you'd have people who bought goods in Saskatchewan or BC getting credits and Ontario's not going to pay for those credits. The only other way to handle it is to base the tax on the GST sales, which is a base you can work from. All I'm suggesting is, opposed to sales tax, there would be no sales tax from the province. There would be GST, but there would be no sales tax per se.

**Mr Sutherland:** So again it's a similar thing in terms of basing it on a percentage of what the federal take would be from Ontario in GST then, more or less?

**Mr Bruner:** Right. If a company had \$100,000 in sales it would have like a 1% revenue tax. It would be much lower than what the provincial tax is now just because it would be on multilayers of the system. Wholesalers would pay 1% on their sales; distributors pay 1% on their sales; manufacturers pay 1% on their sales or whatever the percentage happened to be. It could be 0.1%. I'm not sure what the number would end up being.

The idea is not to put anybody at any further disadvan-

tage. That will trickle down to the consumer regardless. The consumer's going to end up paying it. As I said, the only question would be whether it's an Ontario consumer or an out-of-province or out-of-country consumer.

**Mr Sutherland:** If I could just pick up on Mr Johnson's question regarding the property tax, because it's an interesting concept, one of the points you made is that the property tax system is unrelated to the benefits. I think where Mr Johnson was going to in his question was that obviously if you have frontage right in front of where a subway stop is, that creates far more traffic flow than, say, if you had equal frontage on a small suburban street in Scarborough or Etobicoke, and therefore your benefits are far greater by being closer to that subway line and therefore you should be paying more property tax than in the other. How would you respond to that?

**Mr Bruner:** At the end of the day, what I'm really trying to do—

**Mr Kwinter:** It's the opposite.

**Mr Sutherland:** What's that?

**Mrs Karen Haslam (Perth):** It would be just the opposite. For those in rural Ontario, we agree with you.

**Mr Bruner:** What we're really trying to do is have the province get out of the business of assessing tax at a cost of \$135 million. If the municipalities want to individually say, "Look, if you're in front of a subway stop we charge you X, your curbside's X, flat rate is X and that's what it is," that's fine. I don't care what the municipalities—I may as a resident of municipalities, but I'm not concerned, because they're going to look at the cost of administering this tax, and say, "Is it worth it?"

**Mr Sutherland:** Okay. But I guess the argument I'd come back to is, while different municipalities set different tax rates etc, are there not advantages to the province in terms of business people wouldn't want to come in and try to figure out which municipality has a different system for setting up its property tax rate? You still need some consistent basis for determining that province-wide, do you not?

**Mr Bruner:** What I'm suggesting is that primarily the taxes be collected through the revenue tax base, and then on top of that municipalities could levy a smaller—

**Mr Sutherland:** A small amount? Based on frontage then.

**Mr Bruner:** Well, frontage would be flat rate. If they want to do it in front of subway stops that's fine, but it's their cost of administration. They have to look at what it's costing to administer the system.

**Mr Sutherland:** Okay. I appreciate you taking the time to come up with some ideas that would simplify extremely the tax system. There's no doubt about that.

**Mrs Elinor Caplan (Orléans):** Welcome. I know Cal, just for the interest of members of the committee and for people watching.

**The Chair:** We are interested.

**Mrs Caplan:** I think you would be. Cal, as a citizen, contacted me and said, "Do only groups and organizations get to come to committee, or can a real person come and give their ideas and will I be listened to?" I

encouraged him to notify the Chair and express his desire to be here, and I'm glad that you're here. You made an excellent presentation.

I think most people, when they think about tax reform, assume that's going to mean that their taxes are going to go down. A concern that I have is that right now people are saying, "No more taxes." Part of tax fairness is, if anything, we'd like some relief, although we know realistically we've got big problems with the size of our deficit and our debt, so I think people are quite realistic. But on the other hand, they're saying, "Whatever you do, I don't want to see any taxes go up." I agree with that sentiment, I understand it, and my concern is that in any changes within the revenue system they be revenue-neutral and certainly not see anybody's taxes increase.

I have two questions. The first is, within the proposals you have here, could you see taxes going up as a result?

**Mr Bruner:** Whether taxes go up is really going to be a function of how the government sets the tax base at each level that I'm proposing here. I'm not suggesting that you increase taxes here. I am suggesting that the tax bases be changed, the way in which we collect taxes be changed, in order to save dollars that are hard dollars.

**Mrs Caplan:** I think it's very important that we be clear that taxes are not going to go up as a result of any of the things you're suggesting.

**Mr Bruner:** No, I'm not suggesting that.

**Mrs Caplan:** Okay. The other question I have relates to your questions about the Provincial Auditor, and I would like you to comment on this as a citizen, someone interested in what's happening here.

It's true that a couple of years ago the Provincial Auditor did not give an unqualified attestation to the books of the province. They changed their method of bookkeeping for the purpose of the audit and the numbers that went to the public accounts, but the Provincial Auditor came to this committee at the start of the hearings and advised the government to use the same parameters in setting the budget because their audited statements bear no relationship to the way they're presenting the budget and it's confusing to the taxpayers. I think it's an issue of accountability, and I wondered how you felt about the fact that the government has said to the Provincial Auditor, "We're going to keep two sets of books."

**Mr Bruner:** I don't think a budget is a separate set of books, first of all, so I'll defend the government on that ground. However, I think they should be presented on the same basis. I want to be able to see the budget as compared to the actual statements. I think it is improper at the end of the day to disclose them in any other way. Certainly in private industry I can assure you that I could not. If I was going to present an offering to the public, the OSC would be hanging me two seconds later.

It's just not appropriate. You have to disclose on the same basis. I'm sure you can do all sorts of things, but realistically, if you want to keep up the integrity of the statements in this province, you really should keep them on the same basis.

**The Chair:** I'd like to thank you for making your presentation before the committee this afternoon.



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JOINT COMMITTEE  
WATER INDUSTRY ASSOCIATIONS

**The Chair:** The next presentation this afternoon is by the Joint Committee Water Industry Associations, if the representatives would please come forward.

**Mr George Powell:** My name is George Powell and I'm chairman and spokesman for the joint water industry associations, representing some 11 associations that essentially work in the water and waste water field, representing some 25,000 Ontarians. With me is my colleague Sandy Cochran, who is secretary and special adviser to the joint association.

What I'd like to do, if I might, is to read to you our paper with respect to the water industry's concerns, and it might help to have some of the—I'll call them charts—out in front of you. The charts are here. They're at the end of the paper, and that would help you, I think, in following the discussion.

Thank you for the opportunity to make our recommendation with respect to financial and budget policy for the management of clean water resources in Ontario. There is a growing crisis and increasing public concern with regard to our ability to provide clean drinking water for the citizens of Ontario.

Studies show that the level of pollution of the sources of our drinking water is moving beyond our capacity to control. As a result, the quality of drinking water and our water resources in general is declining. Our systems to treat and deliver clean water are not adequately maintained and are being allowed to fall into alarming disrepair. The result is a real and growing threat to the health and safety of Ontario citizens.

Through neglect, we have allowed the crisis to develop over many years. Given full attention, it will require many more years to correct—what we're suggesting is 15 years—and immense transfusions of cash. Up to \$28 billion over the next 15 years is the current estimate. The longer we delay acting, the worse the situation will become.

To provide an insight into the reasons the status quo is not working, I quote from a document entitled *Water Conservation in Ontario*, published in January 1991. It's by the municipal-industrial strategy for abatement, MISA, and that's Ministry of Environment and Energy. A copy is attached to reference so that you can review that at your leisure.

Ontario municipalities will double their per capita use of water and related energy by 2011 if current use patterns continue. This will create an even greater economic crisis for Ontario water and waste water utilities.

Already, pollution of the province's water resources has reached a level that challenges the capability of our water supply utilities to meet current allowable toxic contaminant levels in their treated water supply, yet the public is clamouring for lower risk levels to be set.

Some 415 municipal waste water plants are discharging more than 90 tonnes of suspended solids every day into Ontario waterways. In addition, myriad toxic pollutants are contributed, primarily by the 11,000 industries using

municipal sewer systems. Indeed, it is estimated that more than 70 kilograms of total heavy metals alone are discharged daily from these plants.

The current pollution emanating from these municipal sources can be attributed in some degree to poor enforcement of existing regulations in the past. More than 100 of the plants currently fail to meet regulatory requirements, with 49 having failed for more than three years running. You have a report on that before you.

Ontario's water and sewage systems have an average age of about 50 years and many contain components which are older than Confederation. Their physical condition is deteriorating rapidly, yet they represent an enormous investment, currently estimated at \$50 billion in capital replacement. Annual spending on water and sewage operation, restoration and expansion represents more than 1% of the gross provincial product, making this one of Ontario's most significant industries. Values of this magnitude warrant improved management and operating procedures to assure that design capacities are adequate, that the systems operate to the maximum benefit of public health and the environment, and that they are fail-safe and efficient in customer service.

Urban storm runoff through combined sewer overflows contributes more conventional and toxic pollution, including heavy metals, to Ontario's receiving waters than several of the industrial sectors. In addition, their contribution of bacteria to receiving waters causes an acute threat to human health and impairs recreational water use.

Canada uses more water per capita—some 360 litres per day for domestic use—than any other country except the United States, in part because its municipalities sell water at a cheaper rate than utilities in many other countries. Currently, we pay between 30 cents and 35 cents for 1,000 litres of water.

The crisis in Canadian water utilities and waste water systems is created by two major defects: (1) Water is sold to customers and waste water is provided to customers at substantially less than cost. (2) This subsidy, when combined with a lack of metering, encourages wasteful use of water.

This situation leads to overuse of our water resources and coincidentally to their increased pollution; continuing deterioration of the physical integrity of our water and sewer infrastructure; non-productive government spending through subsidizing wasteful practices; a need for over-sizing water supply and pollution control works; and unfairness and irregularity in pricing of services among customer types.

The bad news is that the amount of money required to correct this crisis is enormous. The good news is that the problem can be managed if we act now. The solution lies in implementing a conservation program that is based on users paying the full cost of clean water service, which will lead to financial self-sufficiency for these systems. As a result, the need for provincial government subsidies through grants will disappear.

In recent years, the amount of grants provided for our water and waste water systems has been significant: \$200

million to \$300 million per annum. But the future need is a breathtaking and unavoidable \$1.9 billion per annum. A brief examination of the finances relating to providing clean water shows the following, and it's divided into three categories.

The first is replacement. Cost to replace the existing sewer and watermain systems comprises that which is in the ground and that which is aboveground and is estimated at a total of \$50 billion, as I said previously. That \$50 billion, if we take cost per annum and assume it's a 100-year life, at 1% of replacement cost works out to \$500 million; that is, 1% of \$50 billion is \$500 million. The cost per annum to upgrade existing sewer and watermain systems to protect the source of our drinking water from growing threats of pollution and thus protect the quality of water is \$1.3 billion per year. And the cost per annum to provide for growth, that growth which is essentially required by the various municipalities to provide in their systems, is estimated at \$100 million per year. You'll find it adds up to \$1.9 billion.

While the total annual cost to defuse the crisis is estimated to be \$1.9 billion, the total capital spent on sewers and watermains in 1992-93, as estimated by treasury board, was some \$750 million, \$150 million of which is provincial grants and subsidies, \$80 million of which is investment in provincially owned facilities, and the direct municipal funding, including developer contributions, is \$520 million. That totals \$750 million.

The shortfall between moneys needed and moneys actually being spent is slightly more than \$1 billion, an immense amount of money, particularly for governments that are in financial straits right now. For the solution to this growing problem, we refer you to page 4 of the MISA report, "Conclusions and Possible Solutions." We recommend that you read that very carefully. In our opinion, the key recommendations are the following:

"Provincial authorities should move now to adopt and implement a municipal water conservation plan for Ontario. The plan would be fully implemented over a 10- to 15-year period and would be similar to those currently in place in [the United States]. At the root of the plan should be the conservation of water and the requirement that the user pay the full cost of service. Full-cost pricing and universal metering would:

"Permit restoration of all systems before staggering replacement costs become a reality;

"Permit and provide for, on a budgeted basis, the desperately needed treatment improvements to protect our water resources;

"Reduce fiscal pressures on senior government budgets;

"Reduce water use and thereby reduce pollution."

You will note the emphasis on full-cost pricing. The essence of full-cost pricing is as follows:

The price of water and waste water service must reflect its true cost, including allowances for depreciation of the system. There are no transfers from governments and cross-subsidies in this.

Users must be metered and charged only for the amount of water they consume.

Revenues must be dedicated exclusively for the operation, maintenance, upgrading and growth of sewer and watermain systems; that is, the war chest would remain and would be used for the municipality to expand, preserve and operate its systems, not used for other purposes.

The municipalities must adopt a universal accounting system. Right now they don't do that.

How much will this solution cost consumers? Studies show that the average family in Ontario pays about \$340 per annum for clean water and waste water services. Studies show that the actual cost per family to provide for adequate service is about \$1,100 per annum, including provision for maintenance, upgrading and growth. If we assume that the transition period to fully implement the conservation full-cost pricing program is 15 years, it will be necessary to increase the cost of water by 8% per year, every year during the 15-year term, to reach the target of \$1,100 per annum. The annual amount of increase will vary between \$27 per family in the first year to \$80 per family in the fifteenth year.

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Is this politically acceptable? Given a choice—which we believe there isn't—the citizens of Ontario would choose to spend a modest amount more each year to be assured of a reliable supply of clean, safe drinking water, instead of accepting the health risks associated with not having a reliable supply of clean, safe drinking water.

To put the matter in some perspective, the following amounts are spent each year by the average Ontario family on other utilities and on tobacco and alcohol, and you can see what they are: \$340 for water and waste water; cable TV is \$317, probably higher now; bottled water \$400; telephone \$679 and so forth; tobacco and alcohol \$962 and \$913 respectively.

In this case we believe that the safe political decision, in view of the modest additional cost involved, is to act to safeguard drinking water. To not act would seem to us to be politically risky in the extreme.

In conclusion, we urge politicians to do the following:

Accept the fact that our facilities to produce and deliver clean water and to treat waste water are in a state of growing crisis. Do not avoid making a decision to act in favour of doing a study. The matter has been studied to death. We will be happy to refer you to studies completed by highly competent professionals whose conclusions regarding the state of Ontario's clean water systems and the solution to the problem are the genesis of the recommendations we are making here today.

Implement an effective water conservation program. The Ontario Water Efficiency Strategy, which includes the vital full-cost pricing component, was prepared three to four years ago by the Ministry of Natural Resources with the aid of a broadly based consultation group of water industry professionals and other interested parties. It is fully developed and ready to be implemented. A copy of this strategy is attached for your reference.

The results of implementing these proposals will be dramatic. The growing crisis will be averted because water and waste water utilities, like all other utilities, will



become financially self-sufficient. Water and waste water utilities will cease to place the current enormous financial demands upon all levels of government in Ontario. Pollution levels in the sources of our drinking water will be diminished and controlled and the quality of our drinking water will be permanently improved and the current threat to health removed. The physical integrity of our sewer and watermain infrastructure will be maintained and the need for early and costly replacement avoided.

**Mr Kwinter:** Thank you very much for your presentation. I have a couple of concerns. I'm old enough to remember when the idea of trying to sell somebody a bottle of water would have been perceived to be almost illegal and outrageous, that anyone would want to sell someone water when water was readily available and the quality was never in question. Now we have a situation where, according to your figures—and I'd like to question the figure—you say the average family spends \$400 a year on bottled water, and all you're talking about is \$27 per year on the low side and \$80 a year on the high side.

First, I question the \$400 a year that the average family spends, because I don't think the average family buys water. I think the people who do buy water might spend \$400 a year, so I'd like to ask about that. I'd also like to ask you, how do you correlate the quality-of-water situation, which has traditionally been something that in Ontario has been of a very high standard—and I think most people don't even question it—and the fact that there have been such incredible inroads by people who are bottling water and selling it, not only in Ontario but literally all over the world?

**Mr Powell:** Sandy, on the \$400, how did we derive that number?

**Mr Sandy Cochran:** That number came from the industry itself when we were doing some research on an earlier report. We, like you, were surprised that bottled water would be at that level of sales at this point. But that was the figure they claimed and that they indicated was growing.

What we have found, contrary to the opinion you've just expressed with respect to the confidence that Ontarians have in their water, is that there is a growing concern throughout the whole of the province with regard to the quality of water they're consuming, and moreover, they're concerned about the disposition of the sewage which is going back into the source of our drinking water.

**Mr Powell:** I would add that the difficulty is perception more than anything. You don't see a lot of positive news with respect to the drinking water. Toronto's drinking water is tested every two hours, tested for faecal coliforms, tested for all the pollutants they're required to treat for. There needs to be far more effort done on public education but, notwithstanding that, the people are using more and more bottled water.

We don't sell bottled water, by the way. We're trying not to sell it.

**Mr Kwinter:** Just so there'll be no misunderstanding,

I have absolutely no quarrel whatsoever with the need to refurbish and replace the aging infrastructure of our water. I think that's absolutely critical or we are going to be in a very serious problem. But I remember the medical officer of health of Toronto sometime last year, I think it was, commenting that the quality of the water that comes out of the tap in most cases is higher than the quality of water that's sold in bottles. I just wanted to make sure that people who are watching don't get the impression that the water in Ontario and the water in Toronto has suddenly deteriorated to the point where it's unsafe.

**Mr Powell:** You're absolutely right on that; I'm not disagreeing. In fact, the standard that bottled water has to meet and the standard that the municipalities have to meet are two different standards. The drinking water standard that the municipalities are put to is a rigorous testing of their water, and in most cases in the water supplies in Ontario, you don't see a lot of "boil water" orders, but there have been some.

**Mr Kwinter:** Could you comment on the private-public sector approach to solving this problem? Do you have any ideas on that?

**Mr Powell:** I guess I do; I can speak to it. I believe there is a number of reasons for asking the private sector to assist, but one is that in some of the areas that are very fast-growing, the need to expand the infrastructure is beyond what they are legally allowed to borrow, and as they go above the 20% revenue number that they require—the regional municipality of Halton would be one, for example, where they have to spend perhaps something like \$500 million before the year 2011 on infrastructure upgrading. For them to do that actually puts them out of tilt with the borrowing requirements, so the public sector and the private sector could come together in a private-public partnership and could perhaps provide some relief in the financing of that infrastructure. That's one thing.

There are some situations in some of the smaller communities where they're just not as well run as they might be. I would say in those instances the service is going to cost more if the private sector does it. So there's give and take on it; there's not really a clean answer on it.

**Mrs Caplan:** Do you have any examples of working private-public sector partnerships that you could suggest to the committee as models of what you're proposing?

**Mr Powell:** In terms of the public-private partnerships, there is a number, as you know, in England. That's where it came from. There are 10 water boards over there, very large, and they were privatized under the Maggie Thatcher government. There's a lot of information on that.

Sixty per cent of the water supply in France is done through what they call concessions, where the public essentially owns the infrastructure but it's operated by the private sector. They're very large companies that are operating those.

In the United States there are a number of smaller municipalities where that's done. I know that in the city of Indianapolis, which isn't a small municipality, their

waste water system is run by the private sector, and the mayor claims there are excellent gains made there. I think there can be, but I think it's again one that you have to look at.

But the private sector is interested in this particular sector. They see that they can invest in it. It is a good investment, because everybody uses water and it would be a good investment. I think the private sector could assist in financing this tremendous financial cost that we're talking about, the \$1.9 billion, but we've got to get going on it.

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**Mr Carr:** Thank you very much for the fine presentation. You're not unlike the roadbuilders who came in and said the same thing. As you know, in the financial circumstances we're in, every man, woman and child is in debt to the tune of about \$9,000, just provincial debt—the federal is over \$15,000—and that doesn't include Ontario Hydro debt or workers' comp.

Certainly the private sector needs to be more involved and what the government has to do is set the priorities. The three that I believe and our party believes are health care, education and law enforcement. We'll need more private sector involvement in everything from road-building to day care to what you're talking about. So I think everybody agrees on that and it's going to happen under any government—the next one, I think it will happen.

Two things that I'd like to point out: Your stats on page 5 need to be correct and I want you to give us the assurance they are; I don't know. I think what the public will be looking for is, "Fine, we believe the private sector can do it." I think with the government bureaucracy and seeing the way government runs things, certainly they would believe the private sector can do it faster, better, cheaper and at no expense to the taxpayers, which I believe as well. Your figures on page 5 talk about what the average person would be concerned about, which is their bills. Are you confident that those stats are correct and that in fact they're right?

**Mr Powell:** Just let me give you the benefit of a couple of things. First of all, the United States Environmental Protection Agency has done studies that indicate that we should be spending somewhere in the neighbourhood of 1% to 2% of our household income on water and waste water services. Right today in Ontario, I believe the average household income is something like, I'm going to say, \$50,000 a year. It's actually \$52,000 or whatever. But 1% of that is \$520. There are many places in the States, and it's very common in Europe, that have numbers at least at that level, so when I look at the other areas of the world where water is a concern and where they're moving towards better and better water supplies and to doing more and more with the waste water treatment, those are the numbers that are being advanced: 1% to 2% of the average household income is affordable. Economic studies have been done.

**Mr Carr:** Good, because I think that's what the public's going to be looking at and I appreciate it. I didn't mean to challenge your numbers.

**Mr Powell:** Yes, I appreciate that. I'm not arguing at all.

**Mr Carr:** I understand that's what they're going to look at, but I'm interested in how it would work. I've talked with some of the ratepayers in my group who want to get rid of regional government and want it to become a non-taxing utility as well where you pay the cost for things like that. How do you see the shift? Could you maybe explain to us how you would see the shift to the private sector with governments getting out of it, particularly for some of the folks at home? How do you see us moving from what is happening now to what you propose? How would it work? If you could be a little bit simplistic so we could all understand how it should be without getting too much detail.

**Mr Powell:** The municipality would have to examine its system and determine whether it wishes to do so. But let's assume those communities that have very rapid growth and need the influx of private funding—what they can do is take a section of their facility or all of their facility, if they saw fit, and essentially almost sell it to the private sector. The private sector would have to pay them for the worth of that. That's an extreme situation. That's what I call privatization.

Maggie Thatcher, for example, what they did there was they took the Thames water facility and they actually floated a bond issue, and that bond issue was on the public exchange and people bought into that and people bought the service. That's how they raised the money to buy the public asset, I'll say, from the government and then they took it over. They run it as a utility would, like a Consumers' Gas, essentially like the cable TV. But there are many other situations where that may not be acceptable to the public and we're not saying one way or the other that it is.

What we're saying is there are various partnerships that could be set up where you might take the future growth and the growth requirements and have that financed by the private financier and then eventually that would revert back to the municipality as an asset to the municipality over the long term. So that would be like a lease-buyback-type arrangement. There are many instances where that's being done. There are a tremendous number of permutations and combinations that can be developed to suit the funding requirement.

The other one of course is for the utility to be just like it is now, a public utility, run by the public, but we'd like to see that in one entity where water and waste water are treated as a single utility, with the proper financial basis and accounting systems so that every nickel that goes into them is being used for the water and for the upgrading of those systems. So that's the other extreme, which is a public one, and there are a number of different ways that could be done.

**Mr Carr:** Thank you very much. It's a great idea and very helpful.

**Mr Wayne Lessard (Windsor-Walkerville):** I want to thank you for your presentation. It's very interesting. When you're talking about water, you're talking about one of the major building blocks of our existence, really. The majority of us is water and the quality of it is very



important. It's very difficult to try and convince people that there's an impending crisis when you're talking about water, however. I'm from Windsor and we're virtually surrounded by it, and that's not unlike a lot of places in Ontario. Every time it rains there are hundreds of gallons of it that just get flushed into the sewer system, and some of it's treated, some of it isn't.

We have what have been referred to as very high-quality drinking water standards, but we don't drink a lot of the water that we see pass through our homes during the day and I don't know how we as politicians bring home to people the fact that this is something we need to pay more attention to. I don't know if you have any thoughts with respect to that.

**Mr Powell:** I would almost like to have it a non-political issue. I would rather have it as nothing more than a very necessary and essential fundamental of life that we provide to the people of Ontario at a cost that recovers the full cost of it and that when we drink that water and put it back into the environment, we do no damage to it. In other words, the environment is there, it's sacred, it's something that we want to give to our children in a proper state and it's vital that we continue to examine it and so forth.

I think the government's role is regulating. I think the government should regulate it and require the municipalities to provide that safe water system to them. I think if we did that and made it a self-financing entity, standing on its own two feet, that's the way it would be done. It's feasible to do. There are many municipalities in other parts of the world, and even in Ontario, that are doing it.

**Mr Lessard:** Are there municipalities that are using the full-cost pricing for water? I know in Windsor a couple of years ago they put a sewer surcharge, I think, on the water bills to reflect water usage. It wasn't very popular, though, I can tell you.

**Mr Powell:** No, but what it's doing is making the people of Windsor aware that there is a cost for sewage treatment; it's not just something that's in the general taxes. The more, then, you use the water and the more you put it back into the sewage, you're paying your fair share. It's an equitable system, in our opinion, the user-pay.

One of the things that you don't realize, if you look at the financial information that you people have, last year there was about a \$200-million difference between expenditures and revenue, in favour of expenditures. So there's \$200 million that the politicians—I shouldn't say it that way—that the financial return information shows you is not being made up. It is being made up; it's made up by transfers, by coming out of general revenues, by coming out of lot levies. There's a whole slew of other ways that it's happening, and that's the kind of thing that we should be trying to avoid. Put it up there and let it stand on its own two feet, and it will because people need it. It's not a political issue. People want clean drinking water, and we can give it to them and they'll have to pay for it. It won't be something that will get all confused with the soft servicing issues, which I appreciate are real problems for politicians today, believe me.

**Mr Sutherland:** I just want to make one comment.

What I find from people, certainly where I live, is how they define quality drinking water. Taste seems to have more impact on people's definition of quality drinking water than truly what is safe drinking water. I think that accounts for a lot of the bottled water. It has a lot more to do with that. One last question, based on that: Do you think the province should make metering mandatory?

**Mr Powell:** Yes.

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#### CN NORTH AMERICA

**The Chair:** The next presentation this afternoon is by CN North America. Would Mr Allan Deegan, senior vice-president, CN East, and Mr Ron Ditchburn, manager of property tax, CN Real Estate, please come forward and make yourselves comfortable. I'll remind you that you have 30 minutes within which to make your presentation and field questions from committee members. Whenever you're comfortable, please proceed.

**Mr Allan Deegan:** My colleague Ron Ditchburn and I thank you for the opportunity to address your committee. As senior vice-president, CN East, I'm accountable for our operations and business planning in five provinces in Canada, including Ontario, as well as with our Grand Trunk Corp responsible for those same activities in the states of Michigan, Illinois, Ohio and Indiana. As the committee would know, these states have important trading relationships with Ontario.

Over the past several months, a great deal of public attention has been focused on the state of the railway in Canada east of Winnipeg. The proposed merger of CN and CP operations, CP's offer to buy CN's eastern assets and most recently the parliamentary task force, the Nault task force, that travelled the country to hear views from Canadians on the notion of turning CN into a publicly traded company, all of these initiatives have occurred in response to the grave financial situation of both major national railways over the last five years in eastern Canada, each of which has experienced substantial losses. These things have certainly caused people to be more conscious of the economic importance of railways and perhaps to even begin to wonder what the future is of CN.

I thought it might be of assistance to you in your pre-budget deliberations to determine just how instrumental CN North America is in the expanding industrial economy of Ontario, and also how we can continue to play an even more important part provided that the Ontario government recognizes the extremely competitive nature of the freight transportation business and does not act in a way that inhibits our ability to serve Ontario industry.

To set the stage, as we have done in the past, I'd just like to give you a few basic facts and figures about our operation in Ontario. We employ in the range of 6,000 people and we have a payroll of close to a quarter of a billion dollars.

Over the past three years, we've spent approximately \$400 million in Ontario on capital improvements to our plant and facilities. Our company pays some \$60 million, and in fact our most recent figures for 1994 show that we now pay approximately \$73 million, in various taxes to

municipal and provincial coffers in Ontario.

We've got a track network of some 2,700 miles. Our employees operate approximately 45,000 GO commuter trains each year in Ontario, with by the way an average on-time performance of 95%. On any given day in Ontario, we have some 225 mainline freight trains, road switchers and industrial yard assignments in action.

We service some 4,000 freight customers, and in 1994 our trains delivered 23 million tons of freight to or from Ontario industries. For example, rail transportation is of vital importance to the automotive, steel and chemical industries, the pulp and paper industry, and therefore is influential in the maintenance and growth of good-paying jobs in these sectors in Ontario.

I was interested to read in the government's guide to budget-making, 1995, that Ontario's economy grew 4.5% last year and sustained growth is indicated for the remainder of the decade. Striking a particular chord with me was the statement, and I quote, "Ontario's manufacturers have more than doubled their exports to the US in the past 10 years. Auto assembly and parts lead the way, but high-tech business equipment and services are an increasing source of export earnings. Ontario firms are also bolstering trade with developing economies around the world." We at CN can relate to that statement. It very much reflects the significant changes in our own activities and traffic patterns in the last few years.

Global industrial restructuring and the new trading agreements among Canada, the United States and Mexico have dramatically changed our workload. Even when our traditional transcontinental freight carryings remain strong, cross-border shipments have risen sharply in the 1990s.

CN has no fewer than four international gateways in Ontario, three of them in key areas of southern Ontario. Our tracks connect to the US rail system by way of the International Bridge at Fort Erie, by way of the Detroit River Tunnel, which we own in partnership with CP, and by way of our own rail tunnel beneath the St Clair River between Sarnia and Port Huron, Michigan.

Through these international gateways we now move some 4,600 trains per year. Since 1991, our tonnage from Ontario to the United States has grown by 28% while the tonnage from the US to Canada is up by 18%, and all while our transcontinental business east to west is growing at certainly a moderate but steady pace.

A large part of this freight traffic is made up of what we call intermodal trains, trains carrying shipping containers, either domestic or off the ocean ports, or carrying highway trailers on flat cars. This type of service is loaded quickly by cranes at intermodal terminals in major cities, with tractor-trailers doing the local pickup and delivery.

The potential for growth in intermodal to and from Ontario is almost unlimited. We have made major investments in our plant and facilities to exploit this opportunity. Indeed, most of you have probably seen and heard a great deal about the new tunnel we are building beside our present tunnel between Sarnia and Port Huron, Michigan. This is a \$200-million investment, perhaps the

largest single investment in transportation infrastructure in all of North America in recent years.

This will be open for traffic in little more than a month. Its very large diameter will allow us to operate trainloads of multilevel auto carriers as well as double-stacked containers on flatcars all the way from Halifax or Montreal or from Ontario's industrial basin right through to our major terminal in Chicago. We can't do that with our present tunnel, so this will mean a tremendous improvement in the service to our customers because we will no longer have to use our time-consuming railcar ferry operation across the St Clair River at Sarnia.

In this context, when you look at the dynamic freight transportation marketplace in North America, Chicago is really the key. Not only is it a huge industrial market on its own, but Chicago is also the railway hub of North America. There are more than two dozen major rail yards in the Chicago area. All significant railroads interchange traffic there for all other parts of the United States and Mexico.

I take pride in saying that CN already has the most efficient rail route between Ontario and Chicago. We own the Grand Trunk Western Railroad, which extends from Port Huron to Chicago and from Windsor through Detroit south to Cincinnati and Toledo. Very shortly the Grand Trunk operations will be completely integrated into those on this side of the border.

Together with our new tunnel, this will be a telling one-two punch for our company against our competitors. North American freight shippers are demanding seamless, efficient, reasonably priced service. We believe we are doing what we must in order to help industries compete in their own markets and to grow our railway freight business so that we can become a financially strong and durable company.

At this point, with all I've said so far, you're probably thinking that this sounds pretty rosy. One would be forgiven for wondering why all the fuss about railways in the past year or so and what does this all have to do with the process of pre-budget consultation.

In response, I would ask you to consider for a moment the fiercely competitive nature of freight transportation, together with the purpose and needs of the freight transportation companies involved.

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I want to emphasize that CN's needs are no different from those of our competitors. Although we are currently a federal crown corporation, we are obligated to perform as any other commercial company and ensure that our shareholder receives a reasonable return on investment.

In CN's case, however, there has been no investment by the shareholder for nearly two decades, and since we are not able to secure equity funding from other investors, we are very much on our own financially. This demands that we manage our business in such a way to continuously improve our profit-and-loss statement so that we generate the funds needed to survive and sustain a strong future. It means we have to generate the funds to finance our capital investments.

In Ontario and in the rest of eastern Canada, the



competition for freight business is not restricted to Canadian railways and Canadian truckers. We are very much in a North American borderless market, where American railroads and American trucking firms are extremely aggressive. As far as the railways are concerned, the American companies are far and away more productive, more streamlined and more cost-efficient than either CN or CP. This is because deregulation of transportation in 1980, the Staggers Rail Act, led them to make mind-boggling changes in the way they do business so that their costs are much lower. This, obviously, is reflected in the rates they are able to quote to shippers.

But our main competition in Ontario and elsewhere in the east is the trucking industry. Trucks continue to proliferate, with more and more taxpayers' dollars being spent on new and expanded highways. Certainly the policies of the Ontario government have encouraged this growth: longer and heavier trucks, licence fees that come nowhere near paying the true costs of operations and tax advantages not enjoyed by other modes and so on. Trucking is important to Ontario.

So we have to keep our prices low to attract business. It's as simple as that. On the other hand, our cost base in Ontario is inordinately high. Without an extremely aggressive cost-reduction effort, our costs will continue to overtake any small revenue yields we can accomplish. Our ability to survive will be threatened and so too will the role we now play in helping Ontario's industries.

Our cost reductions are coming from a broad range of initiatives, from working smarter by changing processes, by consolidating activities and by eliminating redundancies. We are also striving mightily to get out from under the crushing cost burden associated with too many underutilized rail lines.

Without question, the needs of rail customers today and tomorrow can be met with a much smaller network. A great deal of our 2,700 miles of track in the province isn't really compatible with the vision we have of ourselves as being a core rail carrier moving truck-competitive freight between major distribution terminals. Many of these light-density lines are unprofitable and should be abandoned; some, however, are marginally profitable but could best be operated by smaller, independent companies as feeder railways. The successor rights provision of the Ontario Labour Relations Act has created difficulties with the exercise of this alternative. However, we are still hopeful that a way can be found to work out with the unions and the government a resolution of this issue.

As your committee examines various views regarding finance, the provincial economy and the 1995 budget, I hope that some of the points I have made will be remembered. I believe that the investments and the plans we are making hold enormous potential for expanding freight volumes and aiding the competitiveness of Ontario's industries. However, our ability to seize these opportunities depends greatly on whether the economic climate is railway-friendly or not.

Railways already bear a discriminatory tax burden in Ontario. Almost half of the \$73 million in taxes CN pays in Ontario each year represents property taxes on our rights of way and rail yards and diesel locomotive fuel

taxes for operating our own trains on our own rights of way. These are clearly punitive taxes that harm our competitiveness.

Our highway competitors do not pay property taxes at all on the public roads and highways they utilize to compete with railways, nor do the fuel taxes they pay equate to the overall cost of building and maintaining highways. Moreover, our real competitors in neighbouring states operate under a much more favourable tax regime. Some Canadian provinces have recognized the tax disadvantages that harm the health of railways. Manitoba, for example, rolled back the level of locomotive fuel tax assessed railways there.

So with anticipated sustained growth in Ontario's economy, the time is right for the province to undo some of the imbalance in the tax structure and let railways fulfil their potential, as we see it, as the engines of prosperity.

**Mr Kwinter:** We had a presentation, I'm sure you know, from CP the other day, and they made many of the same points.

I was interested to see your reference to the fact that some of your tracks are not terribly productive and you'd like to see them off, and smaller operators. Of the trains you're running, what proportion is freight and what proportion is passenger, and are most of the tracks you want to get rid of the passenger tracks?

**Mr Deegan:** If I could answer it this way, all of our business is freight business, and on top of that, we operate about 97% of the GO service in Ontario under contract with the government. So that's one nature of our passenger business. The other nature of our passenger business is the Via trains we carry on our lines, again under contract.

Essentially, all of those trains operate on what we consider to be our core network. There are a couple of GO lines or possible extensions to GO lines that are on rail lines under some question, and we're working that out with the Ministry of Transportation and the GO Transit people, but essentially our core network handles all of our freight business and all of our passenger-related business.

**Mr Kwinter:** I'd also like to comment on the problem of the taxing of the right of way. I'm very supportive of your particular position on that because I think that to put in a tax that is literally retroactive and then penalizes you for what happens alongside that right of way makes no sense. If you had known going in that this was going to happen, you could have planned your tracks in such a way that they wouldn't be—well, the people from CP mentioned that if they go by the SkyDome, they have to pay the rate the SkyDome pays. If you had the choice, you wouldn't go near the SkyDome. That, of course, is one of the problems.

How do you feel about that whole situation and where do you think the progress is going to be to alleviate it?

**Mr Deegan:** As in most cases, our view is that we got there first. In relation to where our tracks are, that's where our customers are, that's where we do our business.

With the last effort on market value assessment—and you're correct; it was in the major urban builtup areas where the proposal was to assess us on the base of adjoining property values—our tax was going to increase in the range of 400%, highly inequitable from our point of view.

I think some sanity and reason got into the argument when we brought forth the argument at the same time Ontario Hydro was bringing it forward, that we would have to pass a majority of that expense along to GO Transit under our contract with them. GO Transit was operating at the highest density on some of the routes that were most susceptible to the market value assessment, so our tax bill in Metro alone was going to head up into I believe around the \$50-million to \$60-million range, and over 50% of that was going to be passed on to GO Transit under contract. So it just doesn't seem to make much sense.

The key issue for us is not only that argument but the argument that our key competition in eastern Canada is trucks, and to unnecessarily hobble the railways with a taxation base like that is just beyond our imagination.

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**Mr Kwinter:** There's another area I'd like to explore with you. You may or may not know that I used to be the chairman of the port authority of Toronto. When the seaway was conceived, it was going to bring ships right to Chicago and through Toronto to alleviate all the problems of either rail or road. That, of course, didn't happen because it's not a year-round facility and it's not deep enough.

What proportion of the freight that comes into the port of Montreal—this is container freight—comes into Ontario and what proportion goes rail and truck or intermodal? Do you know that?

**Mr Deegan:** I would have to admit with some regret that our main rail competitor handles most of that traffic that comes out of the port of Montreal towards Toronto, so best you should have asked Canadian Pacific that question. I can tell you, though, that with the current companies that operate out of the port of Montreal, for traffic that goes Toronto and beyond I'd just have to say a fairly high percentage would go by rail. We're experiencing the same sort of thing with traffic that comes across the ocean into Halifax. We carry pretty well exclusively the traffic that comes out of the port of Halifax that's destined for either Montreal, Toronto or indeed Chicago, which is the focal point for all container traffic in North America, and by far the vast majority of that moves by rail.

So we really feel that in relation to how the province wants to look at its finances and structure its transportation system, rail is essentially a paid-for system that is there. We don't look to be subjected to any discriminatory taxation, and we also feel that a greater use of the rail network, particularly the core system, puts the province in a marvellous position where it can start to manage the deterioration of highways and the money that's spent on the road system a lot better.

**Mr Carr:** I have a question and then I'll pass it over

to Dave because he has one as well. As usual, we don't have enough time.

Thank you for the presentation. On page 9 you say the Americans are far "more productive, more streamlined, more cost-efficient than either CN or CP" because of deregulation. You go on to say on page 11 that you were trying to work smarter, change processes, consolidate activities and eliminate redundancies.

We have just as big a challenge here in the province, because we have to do the same thing, and we're far, far behind what you're doing, and I believe we're way behind what you even had to do. But I guess that'll be the big question in the next provincial election, who is best to do that.

The question about versus the Americans: How far behind are we, and are you confident that we are going to be able to compete with the Americans? I'll preface that by saying we had the automotive manufacturers in here, and they sat here and said our exports in cars are up, and we're doing the job faster, better, cheaper than the Americans are, when we left them alone. Unfortunately, we've regulated you so much that you aren't able to compete. How far are we behind the Americans, and a few years from now, are you going to be in business and be able to compete with them?

**Mr Deegan:** Yes, we are going to be in business. Yes, we will be able to compete. Right now, in terms of competition with the US side, while some people would look upon it as a negative, I suppose, the current status of the Canadian dollar is one of our best allies.

But maybe I could describe it best that one of the key measures in the railroad industry is something called the operating ratio, which is your total revenues over your operating expenses. Some of the better US roads that we compete with have operating ratios in the range of 78 to 82, meaning they spend 78 to 82 cents for every dollar they can take in. Our operating ratio last year, a year ago, was at about 95, 98, meaning we spent 98 cents for every dollar we took in. We've pulled it down considerably this year and we intend to pull it down considerably more next year.

The effect of that in its most simple terms is that when a marketing representative from one of the major US roads goes in to a customer bidding on an account, let's say an automotive account, they know the people back home are going to be spending 78 cents for him to earn that dollar, so he's got some room to play. When our people go in, on what we were doing a year ago, they knew we were already spending 98 cents, so how in the world do you make a whole lot of money on it?

The US has become highly entrepreneurial, highly competitive, getting out of a lot of regulation. They have different tax regimes south of the border, and while there's not enough time to get into any detail, it's a more friendly regime, generally speaking, than what we have in Canada.

**Mr David Johnson:** As I understand it, the rail lines are assessed, for property tax purposes, on the basis of the adjacent use to the rail lines. Is that essentially correct?

**Mr Ron Ditchburn:** Yes, that's correct.



**Mr David Johnson:** Is it your contention that the rail lines should pay absolutely no taxes or not be assessed at all, or is it your contention that there should be some low assessment based on the lower use that would not be subject to change if the adjacent property changed?

**Mr Ditchburn:** If we're looking at our main competitor, our argument would be that versus trucking, on the right of way alone—and we're not talking about our yards and that sort of thing, but the actual area where the trackage is—we should either not be assessed, or exempt. At present we're paying something like \$12.5 million in right-of-way taxes in Ontario, and next year, if Halton reassesses, and also Niagara is talking about reassessment, that would add another \$1.5 million on top that's just pure increase; that's not taking into account normal mill rate increases or anything of that nature.

We know, and we've put it in presentations before, that right now everyone has fiscal problems.

**Mr David Johnson:** Including municipalities, and that's the flip side. I wonder if you've approached AMO. They were before us yesterday and they were criticizing governments in general for making unilateral decisions. In particular, they have been charged for assessments which—if they wish their assessment rolls updated midyear, last year for the first year they were charged, and the charge was somewhere in the vicinity of \$19 million, I believe, over all municipalities. Maybe we're talking about the same order of magnitude here. They were very irate about that. Have you discussed this with municipalities?

**Mr Ditchburn:** We've had conversations with individual municipalities, not on an overall level, and perhaps we should be more proactive in that. We've been really trying to bring a halt to some of the increases we're facing, because right now what we're finding is that we move into some areas, and it's truer about smaller railways than CN or CP, and municipalities seem to favour maybe a halt to the increase in taxes. This is basically bringing back the pre-1990 assessment methodology where there are still taxes paid but there are changes between the railways; that group of properties, if they're paying \$1 million in Toronto, say, will continue to pay \$1 million plus their 5%, 6% increase.

**Mr David Johnson:** That's why I asked you if you had another scenario. Perhaps that might be useful, and I would suggest strongly that you do discuss this with them and try to work out some compromise. That may be just the ticket that gets you out of this dilemma.

1600

**Mr Norm Jamison (Norfolk):** It's a pleasure to have you here today. The question I'd like to ask is that dealing with transportation in general, whether it be trucking, shipping or rail, we're really looking at, today more than ever, a situation where manufacturers are looking at getting their product delivered on time, on a very timely basis, and of course then comes the issue of price.

But in many instances, the just-in-time delivery aspect of doing business today even overrides the price element, if there's a relative closeness but you can be assured of

just-in-time delivery.

The concern I have after listening to your presentation is that you seem to be downsizing your operations somewhat, keeping your main trunk lines operating. In doing that, letting some other lines that are marginally profitable, would you not be eliminating some manufacturers' ability to use your system directly?

**Mr Deegan:** No, not really. If I could explain it to you in these terms, Mr Jamison, we want our core network to be sort of the most effective, efficient network possible for getting freight from major location to major location. Certainly that's what our customers want. GM wants us to be able to take traffic from Flint through to Oshawa in the shortest time possible. That's where we're investing an awful lot of money in our core network.

When you get to some of the non-core lines, the branch lines we're talking about, some of our lines do have small industry on them. We have other ways of handling small industry. I made reference to our intermodal capability where we can containerize, trailerize, whatever, the manufacture of most industries and bring it in by road—which we do, we own our own equipment—bring it into major terminals, put it on trains and get the efficiency of the long-distance haul out of it.

When we are looking at our non-core network, that's one thing we're particularly sensitive to, to ensure we're not going through a significant erosion of revenue just by eliminating for efficiency's sake.

**Mr Jamison:** Yes.

**Mr Deegan:** The marketplace is the key, prime target.

**Mr Jamison:** I agree with you. The second part of my question really deals with something that no one has really picked up, and that is what CN is doing to remain competitive as far as just-in-time delivery and all the factors beyond the dollars and cents in cost and freightage.

When you talked about the new tunnel, what was the turnaround time on using the old tunnel and having to barge cars across and so on? What difference does that make to your operation? Because—and this is my perspective—just the advent of that tunnel, which is a highly expensive proposition, not only makes you more competitive, it also makes Ontario more attractive—

**Mr Deegan:** Absolutely.

**Mr Jamison:** —that one investment. I really believe that's an important aspect to look at, how forward-looking your company is as far as recognizing the factors in obtaining, in the public side, the ridership, or, in the merchandise side certainly, the ability to move freight by rail.

**Mr Deegan:** Maybe I could just comment on that. The new tunnel between Sarnia and Port Huron will allow us to gain, on behalf of our shippers, somewhere between 12 and 36 hours to Chicago.

**Mr Jamison:** That much?

**Mr Deegan:** That much. So people like General Motors have an extremely high interest in it. It's also positioned us to enter into alliances with some of the major US companies that are interested in using the

tunnel. We currently have an alliance with a major US trucking company that is going to convert, by and large, to container. So rather than seeing all the truck traffic on Highway 401, as we're all used to, particularly that going through to Oshawa, it'll be coming through our new tunnel on double-stacked containers.

That has a great benefit for Ontario, frankly. When you have to look at other things such as the transportation budget and the wear and tear on roads and bridges and everything else that you must finance, we maintain our own right of way. It's there, it's free; hence the taxation issue.

**The Chair:** Unfortunately, our time has expired.

**Mr Deegan:** It was a great note to end on

#### CANADIAN PROPERTY TAX ASSOCIATION

**The Chair:** The next presentation this afternoon is by Yvonne Hamlin. Correct me if I'm wrong, but I believe you're making a presentation for the Canadian Property Tax Association.

**Ms Yvonne Hamlin:** Good afternoon, Mr Chair and members of the committee. As Mr Johnson has indicated, I'm here on behalf of the Canadian Property Tax Association. This is a national organization that was created in 1967, the aims of which include the promotion of equity of assessment property.

One of the goals and activities of the association is to study legislation and to make representations to governments on property tax issues. Last fall the CPTA struck a committee to deal with and look into the issue of farm land assessment and I was asked to be chair of that committee, which explains why I'm here today.

You've heard a lot before this committee today, and I had an opportunity to hear the presentation of Mayor McCallion this morning, about the importance of assessment and local taxation. Everyone knows about the current needs of every level of taxation to have more revenue, and the local governments are no different from any other level, but in looking for the revenue, usually a balanced approach by the taxing authority is the one that's adopted.

I am here because in some of the municipalities, particularly in the greater Toronto area, there has been a push for what I would call excess taxation on lands that are currently farmed. This excess taxation will have a negative impact on the farm economy, on the ability of the province to ensure consistent and balanced growth, on the ability of builders to provide affordable housing and on the ability of owners to carry sufficient lands to accommodate future growth.

I make this presentation to request the committee, through the process that you're going through now, to make a minor amendment to the Assessment Act that will ensure that this excess approach to taxation will not be allowed to occur.

Some municipalities have always taken an aggressive approach when it comes to taxation. You heard Mayor McCallion this morning speak about the 5% park issue. As I'm sure many of you know, the Planning Act requires that when you're subdividing land, 5% of the land be given to the municipality for park purposes.

Mississauga took a very aggressive approach in reading that and also required 5% to be given at the building permit stage, where there was an increase in value. So they really took two bites at it.

**Mr Sutherland:** No.

**Mrs Haslam:** Not Hazel, no.

**Ms Hamlin:** Amazing. Not Hazel, no. But no other municipalities interpreted it that way. The staff at the province didn't interpret it that way and, as she indicated to you, the province took the opportunity in Bill 163 to close that opportunity. The point is that I guess sometimes the province has to intercede to make sure that there are not abuses of the provincial legislation that lead to excess taxation.

Now many of you probably haven't had much to do with the assessment of farms, and I'm just going to take a very few brief minutes to explain to you that the assessment of farm land was given special treatment in the Assessment Act in 1955, and there have been six legislative amendments since that time that reinforced that special treatment.

Originally, the special treatment, as I'll call it, was given to those whose principal occupation was farming, and then as Ontario became more of an urban area and lands that were being farmed were held by other than farmers, the Assessment Act expanded to really cover all situations where there was a bona fide farming operation being carried on at the property. What the act currently says is that farm lands shall be assessed at a value which reflects their farming activity, not on the basis of any other use of the lands.

That intent has been reflected by the Ontario Municipal Board and the courts in many decisions over the years. In one decision of the Ontario Municipal Board, in 1981, the board said this about the intent of the legislation:

"The board agrees that the sole intent of the Legislature is to assist farmers to continue to farm land despite the pressures to sell the land which would be particularly aggravated if their taxes were raised to the rate which would be paid if the lands were not utilized for farm purposes. It is the belief of this panel of the board that those purchasing lands with the intent of subdividing are thereby also encouraged to keep land in food production as long as possible."

#### 1610

Now, the zoning of the land has never been an issue. It's never been determinative. But I must tell you, and the reason I'm here is, that the Ontario courts have recently had a case come through where the question has been opened up, without it being settled, as to whether zoning of land, that is, the use that land can be put to, should have some determinative point to play in whether land should be assessed for farm purposes. In other words, lands could be farmed, but if they have a zoning law on them for industrial uses, how should the assessment be treated? Historically, that's come up a number of times and the courts have always said: "We're looking at encouraging farming. Zoning is not determinative."

As I said, there's been a recent decision that's raised it. It has not been settled, but I can tell you that a few



aggressive municipalities, and I don't think I'd be telling tales out of school to say they would include Mississauga, Brampton and I believe Oakville, are now taking this opening and aggressively pursuing through the appeals process the assessment of farm lands.

I want to address with you today a few points in my time: the provincial policies that encourage farming; why farming has always been an inherent part of the planning process; who is it who's farming anyway in the province of Ontario; and what is the impact of this aggressive interpretation that's being placed on the assessment provisions.

It goes without saying we've had a lot of growth in Ontario, particularly in the GTA, for many years. In a study that was produced by the IBI Group, who many of you know are consultants, for the Greater Toronto Coordinating Committee in 1990, they in fact estimated that between 1961 and 1986 we had 65,000 people per year come into the GTA and they estimate through to 2011 another 68,000 people a year. What has this meant? It has meant the province and in particular this government has introduced a lot of policies to require that growth be directed to settlement areas, to require compact growth, to require growth to be using up land as needed, and also to make sure that lands are kept in agricultural production as long as possible.

There are a number of policies I want to just remind you of, and I'm sure many of you are very familiar with them. One is the Food Land Guidelines that were produced by the then Ministry of Agriculture and Food back in 1978. It clearly recognized the importance of the agricultural industry not only as a producer of food but as an important component of the economic base and as a source of employment. It recognized that land use planning policies should as much as possible ensure land is kept available for farming until it's actually needed.

The growth and settlement policies which came out of our Ministry of Municipal Affairs in April 1992 stress the importance of protecting the integrity of agricultural lands while ensuring we adequately anticipate growth. Also, there are many policies now that require a designation of a sufficient supply of land for residential, industrial, commercial and other uses in advance of actual development needs. The Ministry of Municipal Affairs actively encourages the designation of lands through official plan amendments for this future land-holding need.

Typically, land owners take advantage of that official plan process and rezone their lands at the same time. In this regard, the housing policies of this government also require a 10-year supply of designated land for residential uses—a 10-year supply—and a three-year supply that's actually draft approved, ready, you can go in and get a building permit, for residential uses.

There are policies that stress a phased approach to bringing development on stream and also the growth and settlement policies that stress that comprehensive long-range planning should ensure the development of policies which integrate the demand for growth with considerations relating to conservation and agricultural lands.

Finally, the Assessment Act has long said that as long as lands are used for farming, property taxes are calcu-

lated on the basis of their value as farm lands only.

Why has the province encouraged this long-term designation of lands and encouraged, through the official plan and rezoning, having a lot of lands available? One, it ensures there is a sufficient supply to keep land costs down.

Secondly, if you want to attract industry and business, which pay, obviously, realty taxes, business taxes and create jobs, there have to be locales with a zoned and readily available inventory of land. Businesses can't wait for the five-year planning process. They make a decision. They want to build. They look for the land. They want to go ahead. They can't wait.

Thirdly, it ensures well-planned communities, and fourthly, this has been a big point for this government, to ensure that growth is directed to those settlement areas where the province wants major infrastructure. They give an early warning: "Growth is going to this area. This is where the roads are going. This is where the major facilities are going."

Who's doing the farming? Largely in the greater Toronto area it's tenant farmers. Not much rent is charged to these tenants, but the farmers do all that's necessary to cultivate the soil. They plant it, they harvest it, they take it to market. We see it as vegetables. It's often used for livestock feed.

The owners of the land generally fall, in my experience, into four categories.

The first one is large and small businesses which have decided to build their head offices or factories here, but they've bought excess lands thinking they're going to expand in the future. Before they're into that expansion mode, they're farming those lands.

Secondly, residential home builders who are anticipating a long-term build-out will buy these lands that are designated and zoned.

Thirdly, developers who are participating in the lengthy planning process we have here often will buy lands. They will farm them through the planning process. As the market approaches, they may stop to service the lands, put in some pipes and so on, and then farm again until the lands are actually required for growth.

Lastly, I've spoken to a number of aggregate producers, which as you know produce the gravel and other components that are needed for our roads and our construction industry, and they tell me that they buy in large blocks of land. Their lands are zoned for their use, but the Ministry of Natural Resources actively encourages them to farm their holdings prior to their being excavated, because they only excavate so much at a time. They have also been actively encouraged over the years to farm their lands and they also look to this farm land assessment.

What's the tax impact of what these aggressive municipalities are looking for? We asked a tax consultant to do some numbers for us, and we took Mississauga as an example because that's where this consultant does a lot of work and it's one of the municipalities involved.

We calculated, for a one-acre parcel, that if the lands were zoned industrial but are farmed, and if these aggres-

sive municipalities have their way, the taxes would increase on a one-acre parcel about \$2,800. If you look to a 50-acre parcel, which might be a typical holding, the increase in taxes on an annual basis would be \$140,000. This is almost a 6000% increase. If the lands are commercially zoned, the taxes would go up almost \$6,000 an acre. If the lands are zoned for multiresidential purposes, and this is where our stock of townhouses and affordable housing largely comes from, if it happens to be zoned for multifamily residential, the taxes on a per-acre basis would go up \$11,400, so for that 50-acre parcel it's almost \$600,000 a year more in taxes. These are very big numbers.

You might ask, as we asked ourselves and have debated internally, what is the impact of such a huge increase of taxation? We see six major impacts.

First, farming as an interim use pending development will largely cease as the incentive to encourage farming disappears.

Second, the jobs and the positive economic impact associated with agricultural use will be lost.

Third—and I've heard from several businesses in this account—as you know, many businesses have come to the GTA over the last 10 or 15 years. They employ thousands of people. They made significant decisions to invest in southern Ontario. Based on the existing property tax laws, they bought these excess lands for their future uses. If they are required to pick up such huge tax increases on their vacant lands, most companies today are bottom-line-driven and they will have to cut somewhere else.

They tell me that their next biggest cost is usually employees, so it will have a direct impact on jobs. Secondly, they will be forced to sell those lands, if they can find a buyer, and when it comes time to expand, maybe they won't expand where they are. We all know the pressures on current businesses by those who come up from the States and other more favourable locales trying to get our businesses.

Fourth, there are the carrying costs of land that is going to be developed ultimately for urban uses, for the 68,000 people a year who are coming into our area. With increased costs, we can expect that the costs of all new forms of housing will increase. We know that these increased costs of land and building particularly have impacts on the less affluent sectors of the population.

In addition, it will be increasingly difficult for developers and builders to provide affordable housing and meet those targets set by our Ministry of Housing. Also, the viability of small builders—and we know that small business is generally the backbone of our economy—will be jeopardized because they may not have the financial ability to carry these taxes through the process, through to the point of sale or building.

1620

Next, and I think this is an important point we have to keep in mind, there will be a very strong resistance by owners to have their lands designated and zoned for future urban uses. Who will want to have a piece of land for that 10-year planning horizon that the Ministry of

Municipal Affairs is promoting if it means you're going to have to carry the tax burden over that length of time?

Also, the provincial objectives of clustering development and only using land as you need it and so on will be difficult to achieve, because that objective will be overcome by a need to develop land with anything—any building, any structure—to create a cash flow to pay the property taxes.

We might also expect the disappearance of the readily available and zoned land for industrial inventory, which will limit the attractiveness of our area for business and industry.

Lastly, I happened to notice, when we were going through some of those who are impacted by this, that the Management Board Secretariat, which holds the land for the province, also appears to be big farmers in this province. I was thinking, as I heard the presentation by the rail company about how they were impacted and how Hydro was impacted, that these changes municipalities would like to see, to grab taxes from vacant lands, have major impacts, and I think they could have impacts on the Management Board Secretariat, that also appears to be farming, for all the logical reasons I've said to you and all the provincial policies in place.

What's happening is that land owners are now going back through the planning process to allow agricultural use. As someone who has worked with that industry, I can tell you that land owners spend years going through the planning process to get their lands out of agricultural zoning, and now they're going back into the planning process to get the agricultural zoning again because they're trying to forestall in some fashion this aggressive approach that's being taken.

This, I have to tell you, is an incredible waste of our resources. We have hundreds, if not thousands, of people involved in the Ministry of Municipal Affairs, Ag and Food, MNR, conservation authorities, all the municipalities, who are involved in the planning process, and they now are all going to be involved again as these lands are the subject of applications to allow agricultural uses, agricultural use which has long been promoted and really meets all the objectives and intents of this government.

In conclusion, I'm here to ask that the Assessment Act be clarified to ensure that the existing provisions which benefit the lands that are farmed are maintained. I have set out one suggestion; we're not married to this suggestion. It's a simple suggestion that the section of the Assessment Act that sets out how farm lands are to be treated just have a few words added that might say, "Consideration shall not be given to the designation in zoning of lands," in looking at how farm lands should be assessed.

It will be that simple a change. It would recognize the existing situation and would close what I would call a bit of an opening that the aggressive municipalities are trying to take currently. I'd ask you to consider, strongly, using your committee to make this small recommendation to assist at this time.

**Mr David Johnson:** Thank you very much for the deputation—a very interesting topic. Am I to believe, in



looking through here, that there is one court case, the Amoco case?

**Ms Hamlin:** That's the one, sir.

**Mr David Johnson:** But there's no precedent, I gather; it only pertains to that particular situation, which is rather unique. If I'm correct in that, then there has not been a reassessment of other properties, but there are some under appeal, are there?

**Ms Hamlin:** I was speaking to a lawyer today who spent two days at the Assessment Review Board last week on some lands in Oakville, arguing that zoning shouldn't determine the assessment of farm lands. The reason he's there is that the municipalities have put farm lands under appeal. I've been called by a number of land owners in Mississauga who have lands under cultivation. Mississauga has literally put, I'm guessing, hundreds, maybe a thousand acres, maybe thousands of acres of land under appeal this year by appealing the assessments on those lands and forcing the issue.

**Mr David Johnson:** Does it matter at all if the property is being used for farm purposes? There are properties that may be zoned industrial or commercial or residential. They may be sitting there vacant with just weeds, I suppose, or they may actually be being cultivated. Is that any determinant?

**Ms Hamlin:** Yes. The key criterion to get yourself into the farm assessment provisions is that the lands have to be farmed by a bona fide farmer who cultivates, who plants, who does all the normal things, harvests, sells. So by planting or just leaving your lands with weeds on them, you wouldn't fall into that section.

**Mr David Johnson:** So they would already be being assessed at some different rate?

**Ms Hamlin:** Some different rate, yes.

**Mr David Johnson:** I see. This problem, I presume, is greater in the GTA. It probably becomes lesser as one gets away from highly urbanized areas, I would expect.

**Ms Hamlin:** I gave that some thought, and I think that in the greater Toronto area it's a prominent issue because of the actions going on. But I think it's an issue that's going to impact every centre that has a settlement area with urban boundaries that are larger than where the housing and development is. Because of what I do on weekends, I can think of—as you drive into Lakefield, for example, they have these lands that are currently farmed with big signs up: “We're ready. Come. We can subdivide this in a second to put your industrial building up.” There's an example.

**Mr David Johnson:** I'll ask one last question before my time runs out. You pointed out that there's quite a difference between the taxation for farm land and the taxation for, particularly, multifamily residential, a huge differential. Your position is that it should remain at the farm. Have you been in discussion with any of the municipalities, Mississauga or Brampton, that there's some other position in between that would make sense?

**Ms Hamlin:** It's hard to answer that because the Assessment Act applies to the whole province. It's very hard to just go into one municipality and strike a deal.

**Mr David Johnson:** And have a new category. So

that's really a non-starter.

**Ms Hamlin:** I don't see it as being feasible.

**Mr Sutherland:** Thank you for your presentation. I must tell you that I'm very surprised to hear that this is going on in Mississauga, because we hear that Mississauga is probably the best-run municipality in all of Ontario. I believe we heard that this morning. Its reputation across the country is for that.

It's interesting that you bring up this issue, because there are serious implications here. One of the programs the province operates is the farm property tax rebate program. I think these particular changes would have some impact on that program as well. So I appreciate you doing that, and certainly we will undertake to make the Minister of Finance aware of this situation.

**Ms Hamlin:** Thank you very much.

**Mrs Haslam:** You talked about the GTA and you talked about urban centres, but I come from a rural riding, and the farm tax rebate is a big thing out there. It's not just big urban centres; it could be a small community in the middle of a township that has allowed itself, under an official plan, an area to be zoned for growth. That would put great stress on a farm in that situation. They may be looking at 20 years down the road, 30 years. But that farm tax rebate is very important to them. If this has an effect on that, boy, I want to reiterate that I certainly plan to bring it to attention, because I don't want to see anything touch that farm tax rebate. I know how important that is to some people in our rural areas.

1630

**Mr Kwinter:** I have no problem with what you're proposing, although I'd like to suggest a compromise, because I think there's another problem. There's no doubt that the Ontario Municipal Board has consistently ruled it is what the property is being used for, not what its zoning is. I have no problem with that. Where I have a problem is that there are some municipalities in Ontario that have decided that if they built themselves an industrial park they would attract industry. What they've done is taken farm land that is being farmed, they've put in roads, water and sewers, and nothing's happened. So you've got a piece of land that is being assessed as farm land and it's had all this expensive infrastructure put in, and it would seem to me that somewhere along the line that has to be paid for, and it should be paid for and attributed to the property it was meant to service.

I can see that happening even in the greater Toronto area where a developer has bought some property and the long-term plan is that he is going to turn it into either industrial, commercial or residential but in the interim he would like to have a farm assessment. The municipality, looking at the development plan, says, “That's what's happening; we're going to put the facilities in there,” so the land is serviced right to the property line, only for that property, and he's saying: “Well, it isn't convenient, or the market isn't ready for me. I'm going to just sit here with my farm assessment, and too bad for you.”

I think there has to be some acknowledgement and recognition that that particular infrastructure was put in

for the benefit of that particular piece of property and there's got to be some kind of accommodation so that the taxpayers get some kind of relief from doing that. Do you have any comments on that?

**Ms Hamlin:** Yes, I do. I'm not saying there's no middle ground, and we're always willing to talk; this is sometimes how things are resolved. But with respect to services, I must say that by and large those who develop land pay for the services. Before the Development Charges Act came in there were lot levies, and now we have development charges.

When a developer comes forward now, whether at plan of subdivision stage or at building permit stage, hefty fees are paid to cover all the costs of services for growth, because it's long been recognized, and I guess implemented through legislation in 1989, that growth has to pay its own way. These services are largely paid by those who are developing, and that's to the property line, and then inside the property where the roads and pipes and so on may be put in, those are all paid 100% by those who are developing. Nobody else pays any.

I say that, but I want to reiterate that I'm not saying there shouldn't be some middle ground achieved. I don't know what it is, and maybe this is the start of the discussions on it.

But the owner who's sitting on the lands that are serviced wishes he could sell them, wishes he could market them. There's no market right now. If you happen to be sitting on industrial lands right now, it's too bad, there are no takers. I don't know what you do in that situation, but I think it needs to be talked about.

**Mr Kwinter:** I agree, but the point I'm making is that unless the owner initiated the serviced development, the municipality wouldn't do it, and to have the municipality do it and then have the owner say to them, "Sorry, but it isn't convenient or the market isn't there, and it's too bad, but when we get around to it in two years, five years, 10 years, then we'll talk to you about paying our share," I think that is where the problem is. As I say, I have no problem at all with your presentation, but I think there's got to be an accommodation and a realization that that doesn't happen often but it happens enough that it has to be considered.

**Ms Hamlin:** I think it happens less often than you think. I think most people assume that the municipalities are putting up front a lot of services, and they don't. The services generally go in close to when the lands are going to be needed and they're almost always not paid for by the municipality; they're almost always paid for by the development community. But there may be instances I'm not aware of, and maybe when you get into more rural areas of the province it's different. My experience has largely been in the GTA.

INTERNATIONAL COUNCIL OF SHOPPING CENTERS,  
CANADIAN COMMITTEE

**The Chair:** The next presentation is by the International Council of Shopping Centers, Canadian committee.

**Mr Gordon Peck:** Mr Chairman and members of the committee, I am Gordon Peck. I am a senior vice-president of J.J. Barnicke Ltd and the chairman of the Cana-

dian committee of the International Council of Shopping Centers. With me today is Lorne Braithwaite, chief executive officer of Cambridge Shopping Centres Ltd. Mr Braithwaite is the incoming president of the International Council of Shopping Centers and will be the fifth Canadian to hold that position in the past 37 years.

Our written submission has been provided to the clerk and distributed. Instead of reading it to you, we propose instead to give you a condensed version of our message so that as much of our allotted time as possible is available for questions.

To give you some idea of our industry, Lorne and I were at the trustees' meeting in a warmer clime in the middle of January, in a hotel that was very difficult to find your way around. After a session, I got on an elevator, and there was a concierge taking around a couple of people who were just checking in. The lady asked the man what business he was in and he said, "I'm in finance." She said, "What kind of finance?" and he said, "I finance cattle." I turned to him and said: "You finance cattle? There are a lot of shopping centre people here who would like to meet you." He said, "I wouldn't finance a shopping centre." So we're in trouble in that regard.

The International Council of Shopping Centers is the trade association of the shopping centre industry. It's a non-profit organization with over 25,000 members worldwide. The Canadian committee of ICSC represents Canadian-based members of the association, whose members consist of shopping centre owners, operators, developers and managers in Canada, most of the retail chains, banks, financial institutions and lenders, as well as a broad range of consultants, lawyers, architects, leasing agents and public officials. Membership of ICSC in Canada now totals some 2,000 members.

The shopping centre industry in Canada produces \$28 billion in annual retail sales and delivers \$1.838 billion in sales tax to the province of Ontario, providing 366,000 jobs.

We are facing a tax and competitive crisis. It did not begin with the 1990 recession, but also is not easing as the provincial economy recovers. It has reached an acute stage. Property taxes are making our industry uncompetitive and untenable. We are the early warning system of a crisis that is building across the municipal sector of the province.

For our industry, property taxes are the single biggest immediate threat to financial wellbeing. They also pose a direct threat to the vitality of both downtown and suburban shopping areas. Property taxation is the single biggest variable item in determining lease costs to tenants. High tax costs for tenants result in reduced rental rates, reduced profitability and reduced opportunity for new development. No development equates to no additional jobs and a continuing revenue squeeze on government revenues and services delivered to the public.

Business property taxes and business occupancy taxes in Metro Toronto are much higher than elsewhere, especially in the neighbouring GTA municipalities. In our view, local property taxes contribute to continuing job loss throughout Ontario and are a barrier to the recovery



of employment. Without action on property taxes, local businesses will continue to downsize or cease to operate, shifting the burden on to those businesses that remain risks, accelerating the problem of job loss.

We emphasize that the problems have their origin and solution at the provincial level of government. Key elements of property taxation are controlled by decisions of the provincial government, including assessment policy, subsidies for municipal services, and transfer payments for school funding and social assistance.

Property taxes matter. Business pays more property tax, combined with the related business occupancy tax, than any other tax under provincial jurisdiction. Occupancy costs for retail stores have far outstripped increased sales in Ontario in recent years. You'll find that chart on page 4 of the major submission you have.

Sales increased by only 22% over 1986, with occupancy costs rising 75%. In the drug industry where the chart shows sales went up 45% over six years, occupancy costs, however, have increased by 71%.

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A regional shopping centre in many communities is the largest municipal taxpayer and in many communities is the largest employer. This is a job-related issue. It affects shopping centres in Simcoe, Belleville, Windsor or Goderich. These centres provide the startup jobs for teenagers who do part-time work to earn money or to help with their education costs, and also women who want some type of work while running the household. We all know people in all these categories. We must have a level playing field, otherwise job opportunities will shrink.

Because the situation in Metro Toronto is so serious, we were pleased by recent indications that the government of Ontario intends to move on those aspects of economic and social life in the GTA that militate against a level playing field and an efficient and competitive business environment. In our view, property tax reform should be fundamental to such an initiative.

I'd like to talk about methodology, which is on page 8 of the main brief. The shopping centres are the only form of real estate in which the owner's ability to generate revenue is directly related to a tenant's business operations. In essence, owners and tenants form an economic partnership unlike that experienced in other types of real estate. Typically, shopping centre tenants pay rent in two ways: They pay a base rent calculated with regard to anticipated sales levels, and an additional amount calculated as a percentage of sales above this base level. It is normal for property tax assessors to increase property tax liability on successful tenants who exceed base sales expectations. These successful tenants contribute a participation rent in addition to the base rent contracted in the lease. It is this total revenue stream which the assessors use as a basis for their valuation of a shopping centre.

I'll explain that. In Ottawa, we have a situation with which I am very familiar. A Marks and Spencer store of 11,000 square feet surrendered its lease because it could only generate \$148 a square foot in sales. This space was

taken over by The Gap, which, through good merchandising, advertising and customer relations, managed to produce \$460 a square foot in the same space. This increase in sales, owing to a percentage clause in the lease, resulted in increased real estate taxes and increased business taxes, and of course they also pay corporate taxes federally and provincially. Although the piece of real estate remained the same, because he did all those business things which improved the business, he pays a premium all along the road for his success.

Surely the business component of the space should be taken out of the assessment. A standalone big-box retail superstore down the road, either leased or owned, doing \$70 million to \$100 million, does not have its business portion assessed. Here we need equity in the system.

From our perspective, the root of the problem is an entrenched system of property assessment which is skewed in favour of homeowners. The established inequities contribute to a willingness to continue to exact additional taxes from non-residential property owners. At the same time, they also make the search for solutions very difficult. As any elected official will tell you, the political reality is that commercial and industrial taxpayers don't vote. They do, however, create jobs.

Two additional contributors to out-of-control municipal taxes are education and social assistance costs. Again, while Metro Toronto reflects the worst case, these aspects of the problem are replicated province-wide. They're in the main brief.

The provincial government is central to any initiative to reduce the burden of property taxes on our industry. Our experience and that of many other business sectors indicates that to meet these objectives will involve three areas of provincial action: (1) educational finance reform; (2) reform of provincial property tax assessment policy; and (3) transferring local responsibility for social assistance funding to the province.

In the US, two years ago Michigan withdrew education tax from the property tax, and there are now 22 states going through some form of removing the education tax from property tax and funding it on some other basis.

Property tax reform doesn't have to be a zero-sum exercise. Removing at least some of the burden of education and social assistance costs from property taxes would allow a redistribution of shares at the same time as tax payments are reduced. This doesn't mean that the current tax bill would simply disappear. At the same time, it recognizes that property tax reform is part of a larger process of rebalancing government responsibility and tax powers to increase efficiency and reduce waste and duplication.

We believe these problems should be situated in the context of redrawing the pattern of fiscal responsibility and that the 1995 Ontario budget should address these issues and indicate the short-term relief measures the government of Ontario is taking pending a systemic solution. The budget is more than symbolic in this case: It is the central statement of the government's intention in dealing with what must be seen as a core set of economic issues.

Overall, we believe that high levels of local taxation reflect debt and deficit problems provincially and that these, in turn, reflect problems in the federal-provincial division of responsibilities and tax powers and revenues. Thus, one can say confidently that the definitive solution will reflect comprehensively redrawn public sector finances.

There is a number of ways in which the province could act to provide property tax relief. How we will get from point A to point B is not yet clear. Our industry is anxious to make our experience and expertise available to the province and to participate in efforts to address and resolve the issues we have outlined here. Part of working through these problems is to develop awareness that goes beyond individual homeowners' and companies' property tax bills and to build consensus around a solution that advances the interests of all Ontarians. ICSC is working to help create the solution.

**Mr Sutherland:** Thank you for your presentation. I note that in your more extensive presentation, rather than the summary you read into the record, you did acknowledge that the disentanglement process had been started in terms of dealing with the issue of social assistance costs. It is regrettable that that deal did not go forward, because I think in the long run it was in the best interests of municipalities in terms of having more predictable costs, given that with the different economic cycles, social assistance costs aren't as predictable whereas costs for improving roads etc can be far more predictable.

It's interesting that you noted the Michigan model, because they did take off the education portion. My understanding, though, is that they've also increased their sales tax. The people chose, I believe through a referendum process, that the sales tax would be the way of increasing those revenues. I'm not at this time advocating a sales tax increase in lieu of that, but given your business, retail sales, there's always a lot of concern about any increase in sales tax. Is it your assessment of the Michigan situation that the retailers, because of taking the education portion off, are still going to be better off as a result of going to sales tax from property tax?

**Mr Peck:** I understand that's the situation, yes. But let me throw a quantum leap at you. When I go to my doctor in Commerce Court and get a physical, he gets the same amount of money from OHIP as a doctor would in Kapuskasing, Windsor, Ottawa, wherever. Although there were a lot of people at the start of OHIP who didn't want any part of socialized medicine, nobody I've ever run into wants it stopped.

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If everything in the health system is on a uniform basis and your educational department is coming up with set guidelines and standardization throughout the province, why isn't the education tax the same throughout the province?

**Mr Sutherland:** I think there's general agreement that the province probably should be taking on a larger share of the costs of education.

We had an interesting proposal earlier about simplifying property tax and property tax assessment. You've

outlined that there are some concerns. Do you have any specific suggestions, other than the concept of market value that the system operates on now, that you think would give a greater degree of consistency and fairness to how property tax should be assessed?

**Mr Peck:** Lorne pays more taxes than I do in Ontario, so I'll let him remark.

**Mr Lorne Braithwaite:** I think the first thing I should say before trying to answer your question specifically is that Cambridge has 45 malls across the country and 42% of them are in Ontario, so we're very close to the Ontario situation. We have I think 10 municipalities in Ontario where the property taxes for the last 10 years have increased at more than double the rate of inflation over a 10-year period, and in some cases it's double-digit compound. We've gone back into those municipalities to the point where we've got aggressive right within the city and looked at budgets and how many police per thousand and this kind of stuff, a lot of the services we don't get in malls, and the answer we always get back is: "We're not the problem. It's the education portion that's the problem. We have no control over it."

The bottom line is that if that continues, the industry's toast. A lot of the major players are broke already. I'm not saying that one issue was the major contributor; it was part of many things, and I think you should be aware of that. The industry is broke, so these issues have to be addressed.

The market value assessment in terms of shopping malls is flawed, because you do not understand the way the industry has come together. I've been fortunate enough to work in the industry for almost 20 years, and you've got highly distorted rental rates that are nowhere near a reflection of the cost of putting together a building and in no way reflect equity participation, and yet, in spite of isolation, we're taking market value or the revenue that is being generated by the building. That will ultimately add a further blow to a very weakened industry that is in pretty sad shape right now.

We do have ideas. For example, there's been a lot of work done that we should do a 50-50 solution; in other words, a blending of the old system, which is not perfect either but it's basically founded on costs, with the new market value system. That represents a commonsense approach halfway in between that addresses some of the old ills but doesn't spend \$1 billion to try to figure out all the puts and takes on the funny deals that are done with anchor department stores etc that have no reflection of market value.

**Mr Sutherland:** Well, the new definition of "common sense" isn't doing anything in the middle, that's for sure.

**Mr Braithwaite:** I'd like to make one last comment in that area also. Regional malls, and other malls as well, don't get a lot of the services. They don't get garbage pickup, each tenant in the mall; it's provided and paid for collectively by the malls themselves. There's a real discrepancy and a problem there as well that has to be addressed.

**Mrs Caplan:** Thank you for an excellent and thought-provoking presentation. Fairview Mall is in my riding and



I'm very familiar with the problems that all the tenants of Fairview Mall are having.

I agree that education financing reform must be a priority if we're going to solve any of these problems, and I also agree with you that MVA as it has evolved and as we've seen it functioning is flawed. I have some concerns about what you do instead, because I don't think there are any quick or easy solutions to what the alternatives are. But what I've also seen, as well as it having an adverse impact on your sector, is the experience out of some of the major cities in the United States. Market value assessment has had a very negative impact in their large cities, emptying out the cores, and the cities have died.

I'm one whose community would benefit under market value reassessment and I have always been a proponent of tax fairness, at the same time not wanting to see anybody's taxes unfairly increased, but I have concerns that we mustn't proceed to do something that's going to have a detrimental effect on our quality of life in Metropolitan Toronto.

The point I'd like to make, having said that, as I said earlier today, is that whenever we talk about tax reform everybody assumes that means their taxes are going to go down. What we saw happen just recently to the merchants at Fairview was a reassessment and a reapportionment hitting them all at once that had an absolutely devastating effect, particularly on some of the small merchants who needed an immediate assist.

The problem is that even with the negotiated settlement that Fairview was able to come up with, whereby the large anchors gave back voluntarily to the small merchants some of the reapportionment, my constituents, the merchants in Fairview Mall, the small retailers, are suffering terribly. I'm wondering if you're aware of that situation and if you have any advice for the government and the Treasurer about something that could be done on an interim basis while this is sorted out so that we don't see stores closing and people losing their jobs.

**Mr Peck:** They should stop assessing the success of the small retailer. That's what's happening. They don't separate the real estate from the business portion of that piece of real estate.

**Mrs Caplan:** Could that be done as an interim step towards the kind of massive reform that—

**Mr Peck:** Very easily.

**Mrs Caplan:** Because you see the concern with all of this is that everyone says you have to do the whole thing at once. Well, that's unrealistic. What you need is an approach that will allow an interim step to be taken to relieve the immediate while you get to the medium- and longer-term overall solution for everyone.

**Mr Peck:** Your little merchant in Fairview Mall, because he does whatever he does and he becomes successful and he pays the landlord some percentage rent, his taxes go up but his piece of real estate hasn't changed. That person's business acumen made that successful, just like there are stores in Fairview Mall that really aren't successful. They never get up to the break-even point. If you go out where the big boxes are going,

whether it's Aikenheads, Price Club or whoever, nobody's looking at what their volumes are and what the success is. That all flows into corporate headquarters and they have a flat tax. So the guy in Fairview Mall who's selling these glasses at \$2 apiece—and one up the street somewhere else, and he's probably paying a little extra tax to the municipality because he's on percentage, and the other guy who's selling \$2 glasses doesn't pay any extra.

**Mrs Caplan:** It's a very serious problem for Fairview Mall and I know the other malls in Metropolitan Toronto. If something's not done, we're going to see job losses and people going out of business simply because of a complicated issue that nobody seems to be able to step in and resolve in a way that's going to allow those businesses to do what they do best, and that is create jobs and provide services to the people in the community.

**Mr Braithwaite:** We put forth the 50-50 solution, which I mentioned earlier, and we were sort of the third member of the stakeholder group that was dealing, which included the Fair Assessment Coalition Toronto and the major department stores and also Floyd Laughren's office. We were quite surprised and disappointed, if you will, that at the 11th hour an interim agreement was reached between the FACT people and the major department stores and Laughren's office, with the landlords left out of the discussion. I was quite surprised and taken aback, because the original commitment from the government and the other players was that it was a stakeholder group and those decisions would be made as a group.

1700

**Mrs Caplan:** Well, thank you. I wasn't aware of that, and I know my merchants are saying to me that the deal hasn't helped them all that much and that they are—

**Mr Braithwaite:** It's not a long-term solution.

**Mrs Caplan:** It's not a long-term solution.

**Mr Braithwaite:** Not at all.

**Mrs Caplan:** Thank you.

**Mr David Johnson:** Thank you for your deputation as well. Shopping centres then would be a separate category in the Assessment Act, would they? Separate from other retail establishments?

**Mr Braithwaite:** Yes, I believe so. I think it's separate—well, I'm not sure. No, I think it's all under the definition of retail.

**Mr David Johnson:** I just wondered, because you indicated that in terms of compiling the assessment there's a different approach taken in shopping centres as a similar store down the street. Isn't that what you said?

**Mr Peck:** They're not tied into a percentage rental cost. That sets it off.

**Mr David Johnson:** So that must put them in a different category in the Assessment Act then, I presume. Well, at any rate—okay.

**Mr Braithwaite:** There are different rental rates. The other thing is, they end up in different zoned areas. You can get retail—particularly now with the big boxes, you can get the big-box people somehow getting zoning in industrial areas and—

**Mr David Johnson:** I was involved in this recent shopping centre kerfuffle as well. The Don Mills Shopping Centre of course is in my riding. My understanding is that the assessment was based primarily on square footage, which emanated from about 1970, I think, and that the shopping centres were given some overall assessment—

**Mr Braithwaite:** Yes.

**Mr David Johnson:** —and then within the shopping centre each store was apportioned a certain assessment. The anchors would be given the lion's share, of course, and then the smaller shops would be apportioned their assessment.

**Mr Braithwaite:** Yes, based on the old system it was cost-based, cost of assessment based on the old system.

**Mr David Johnson:** Cost and assessment. It wasn't based on the square footage? Oh, cost of square footage, all right.

**Mr Braithwaite:** Cost and square footage are one and the same thing.

**Mr David Johnson:** Then what happened is that the act was changed but not implemented, or not enforced, until it was appealed by one of the anchors, I think it was, and the way the act now reads and the way it's been enforced, I guess across most of the rest of the province of Ontario, it has a closer relationship to the rental value of the individual store. Is that the way it works?

**Mr Braithwaite:** That's correct.

**Mr David Johnson:** And then the rental is based on the volume of revenues, so that if your revenues—

**Mr Braithwaite:** Well, yes and no. The rental is based on the volume or revenues as far as the specialty, as far as the small tenants. As far as the anchors, not at all, and in many cases the rent that is being paid by the anchors is way below today's economic rent in terms of what it cost to build that particular store. Often what will happen is that when a developer puts together a retail project, he may give the anchor, or the department store, a big allowance to help him build it and charge him a very low rent, which doesn't reflect at all what it cost to put together the—

**Mr David Johnson:** Well, it certainly is another illustration of the problems we have with the assessment system in the province of Ontario. I know, having gone through the problems with the Don Mills merchants, that many of them are just hanging on by their fingernails.

**Mr Braithwaite:** Sure they are.

**Mr David Johnson:** The assessment increases, the tax increases, at that point four or five times, and they simply couldn't bear that. The anchors of course realize this too, because a shopping centre with two anchors, one on either end, and many vacant smaller shops up the middle is not a successful shopping centre.

**Mr Braithwaite:** The anchors are being cute as well. I mean, the landlords were left totally out of that final decision.

**Mr David Johnson:** Can you tell me, if the shopping centre has an overall assessment, and if somebody's

assessment among the stores goes up, then does the total assessment of the shopping centre go up, or does somebody else's assessment go down to compensate?

**Mr Braithwaite:** It's different in different malls, depending on how the ownership and how the structure of the individual mall is set up. But typically what happens is you get a bill for the whole mall and then it is divided out among the different players. That's been the old methodology, if you will.

**Mr David Johnson:** So you're representing the owners, who would actually get the tax bill?

**Mr Braithwaite:** That's correct.

**Mr David Johnson:** And then you would divvy up the bill among yours?

**Mr Braithwaite:** That's right. We would take and show a calculation showing what the total was, the total dollar and what their square footage was over the total square footage, and that's their portion of the tax.

**Mr David Johnson:** I was just wondering, in the case where somebody's sales went up, as the case that you mentioned in Ottawa where the sales went up and you indicated that the assessment for that particular store went up—

**Mr Braithwaite:** In the new market value, that's correct.

**Mr David Johnson:** —would the assessment of the whole shopping centre have gone up?

**Mr Peck:** The total would, but not for the adjoining stores. They would stay the way they were.

**Mr David Johnson:** The adjoining stores would stay the way they were, but the cumulation of all the assessments would have increased or would—

**Mr Peck:** Yes, there wouldn't be any go down because that went up.

**Mr David Johnson:** All right. Did you—

**The Chair:** Mr Johnson, I'm afraid we've run out of time. I hope that information has helped.

**Mr David Johnson:** Yes, thank you very much.

This ends presentations before the committee. We will tomorrow start writing our report, and I want to remind the committee members that the clerk has given to them a proposed report outline document and a summary of recommendations from February 7 to February 9, inclusive, for your perusal tonight. Tomorrow we'll start going over our recommendations.

**Mr Sutherland:** I was just wondering, related to the questions that were asked about the assessment of shopping centres, if we could have research table a brief outline of what the actual assessment process is. I think that would be helpful for everybody in terms of having a better understanding. And I guess also how that would compare to a regular retail shop, just a storefront on Main Street.

**The Chair:** Is that sufficient information? Okay. Thank you, Mr Sutherland. I'm sure everyone would appreciate that.

*The committee adjourned at 1707.*





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ISSN 1180-4386

**Legislative Assembly  
of Ontario**

Third Interession, 35th Parliament

**Assemblée législative  
de l'Ontario**

Troisième interession, 35<sup>e</sup> législature

**Official Report  
of Debates  
(Hansard)**

Thursday 16 February 1995

**Journal  
des débats  
(Hansard)**

Jeudi 16 février 1995

**Standing committee on  
finance and economic affairs**

**Comité permanent des finances  
et des affaires économiques**

Pre-budget consultations

Consultations prébudgétaires



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## LEGISLATIVE ASSEMBLY OF ONTARIO

## ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON  
FINANCE AND ECONOMIC AFFAIRSCOMITÉ PERMANENT DES FINANCES  
ET DES AFFAIRES ÉCONOMIQUES

Thursday 16 February 1995

Jeudi 16 février 1995

*The committee met at 1005 in room 151.*

## PRE-BUDGET CONSULTATIONS

**The Chair (Mr Paul R. Johnson):** Committee members, the first thing I bring to your attention is that I believe you all have before you now a submission to the committee by Dialysis Management Clinics Inc.

The first order of business I'd like to deal with is, I would like to know if the committee members feel that it's necessary—I suspect not—that this portion of our deliberations be televised. We would like to have it recorded in Hansard, no doubt.

**Mr Gary Carr (Oakville South):** My mom likes to watch me.

**Mrs Karen Haslam (Perth):** Yes, but we don't and we have to.

**Mr Carr:** You're going to hear me anyways.

**Mrs Haslam:** Give us a break, eh?

**Mr David Johnson (Don Mills):** Are you talking about today, whether today is televised or not?

**The Chair:** And the rest of the deliberations till we conclude.

**Mr David Johnson:** So is it not on the television at this point?

**The Chair:** It is, right as we speak.

**Mr Carr:** My mom would be turned off.

**Mr David Johnson:** What would be the point in taking it off?

**Mrs Haslam:** Could I say something to Gary's mother? We're sorry, but we really would like to not publicize this part of the proceedings. Bye.

**The Chair:** Just to clarify this for Mr Johnson, this would be recorded in Hansard; there's no doubt about that. But we haven't usually done this section of our hearings in camera, or on camera. On television, I should say, not in camera, which means something else.

**Mr David Johnson:** This is my first time through this sort of session, Mr Chair, so you'll have to bear with me, but I still don't quite understand the point of not televising it. If people are interested in watching it, and I can tell you that I've run into people over the last couple of weeks who would have—

**The Chair:** It would save a lot of money, I suspect.

**Mr David Johnson:** What would be put in its place? Is there a rerun of something?

**Mr Carr:** A blank screen.

**The Chair:** Yes. There wouldn't be anything in its place.

**Mr Carr:** Which may be more informative.

**The Chair:** However, this will be still be recorded on Hansard and the public will still have access to all that takes place.

**Mr David Johnson:** I would suggest that it continue to be televised discussions.

**The Chair:** We may have to vote on this.

**Mr Carr:** I kiddingly referred to my mother. I think the public may or may not be interested, but I think the opportunity would be there. I think it's something that hasn't been done, but they may be interested in the report writing. I think, not particularly today but when we get down to the specifics in the last three days, when we get into the discussion of what will be in the report and why we feel the way we do, the public would like to hear that and we should give them the option.

Having said that, one thing I did want to point out, with you saying it would be cheaper: Is there a cost to televising it or is the staff still there anyway? Are you just saying that or do you have any hard data on the financial costs?

**The Chair:** I must admit I don't have any hard data, but I would presume that whenever the function of recording on video and televising takes place, there must be a cost associated with that which isn't incurred when it isn't taking place.

**Mr Carr:** The people are still here; they still have to be paid. We're still here.

**The Chair:** But the cameras aren't rolling and the film isn't being used. I mean, there's got to be some savings. How significant, I wouldn't know for sure.

**Mr Carr:** I think also in what we're going to put into the report, the recording of what the people heard, they'd like to know how the final report gets put together. We hear the deputations come in and then the final report comes out. I think the public would be interested in doing that. I disagree; I don't think there is an increased cost.

My final point: Any of the members on the committee who are going to vote against it, because I take it we'll probably have a vote, I'd like to hear the reasons they don't want to have the public see what we're doing in writing a report. If there's a logical reason and they can convince me, then I may change my mind, but I don't see it right now and, in conclusion, I think we should have it recorded.

**The Chair:** The Chair is certainly in the hands of the committee with respect to this.

**Mr Gerry Phillips (Scarborough-Agincourt):** Even

though this is a fairly painful process and maybe not particularly compelling television, I think it's worth continuing to televise it. I think the viewers probably appreciate that we're dealing with a lot of detail now and, as I say, it may not be the most interesting thing, but generally speaking, I think we should do all of our business in as public a way as we possibly can, except when we're dealing with matters of personnel or where someone can benefit from the knowledge, so the more open we are the better.

**Mr Kimble Sutherland (Oxford):** I feel like we're all being a bunch of lawyers here deciding whether cameras should be in the courtroom, even though other folks can be here. Whether we have it on the TV station, it's still being recorded in Hansard, so it still is all a public process. The cameras and the provincial network give us an opportunity to share with more people and, as long as we're not worried about those ratings going down substantially due to the somewhat dull nature of what the process will be, it doesn't really matter because people can access the Hansard. What we say and what we do is all going to be public knowledge, so I guess it's not a major problem.

**The Chair:** Very good. I think I've understood the committee members and they would like to have this televised, so we'll continue with that.

**Mr David Johnson:** That's fine. I'm glad to hear the government taking that approach. There were 3,500 people last night at the Metro East Trade Centre attempting to become involved and aware and knowledgeable about the federal budget process and having their input. I just think that with a budget of some \$55 billion, counting crown corporations and capital expenditures and operating expenses, although this may be a little bit dull still it's very important to the people of Ontario and I'm sure that many will wish to have this kind of information.

**The Chair:** I accept that it's the wish of the committee members. I just remind everyone that we haven't televised this previously during these sessions, but this is a fact and that's good. I hope no one's expecting an ACTRA as a result of the ensuing deliberations, however.

**Mr Sutherland:** We just hope people will keep watching, period, Mr Chair.

**The Chair:** That brings us to the part of our deliberations that are maybe not as straightforward and a little more painful as we try to come to some consensus with respect to how we want the report drafted. The Chair is now again in the hands of the committee with respect to that and seeking advice from any members with respect to how they would like to proceed.

**Mr Carr:** My question might be to our researcher, Elaine, who we all know has done a great job over the past few years and has been terrific in putting together reports. I'm just wondering if Elaine had any concerns. I know she put together a couple of pages of questions she would like answered, but maybe we could start off with some of her suggestions and some guidance and then we can maybe answer some of her questions, yes or no, to what we've done in the past.

**The Chair:** I'll turn the cameras over to Ms Campbell

and she'll take us through page by page what we have at this point in time with respect to writing a report.

**Ms Elaine Campbell:** As Mr Carr noted, you were provided with a proposed report outline yesterday for the pre-budget consultations 1995 and, as the memo informed you, there were some points and questions in italics throughout the outline for your consideration.

I'd like to also draw your attention to the summary of recommendations that was handed out yesterday as well. That contained the recommendations that were made to the committee last week, from Tuesday to Thursday. It did not include any of the recommendations from this week, but the headings and subheadings that appear in the table of contents of the summary would apply to this week for the most part as well.

The first page is the introduction. It's a fairly standard introduction as has appeared in the reports. There were two questions, though. The first was, "Would the members like a paragraph following the opening to make reference to some of the themes that served as context for the presentations?" The second was, "Would the members like a reordering of the references to witnesses in the second paragraph?"

**The Chair:** Are there any answers with respect to those questions?

**Mrs Haslam:** One of the themes that I kept hearing was the future: the future when you look at the education system, the post-secondary system, the disabled, multiculturalism. I just throw it out.

The other theme that I heard, especially in the MUSH sector, was that everybody came and said, "We're underfunded." I wondered if that was something we should look at, since I kept hearing that over and over again also. Everybody said, "We need \$17 million to bring up to bare bones. We've been underfunded in the past. This is what we need now," and there were many different groups that came before us with that same theme also.

**Mr Carr:** From my standpoint, just the table of contents order is fine with me—"Economic and Fiscal Policies," "Sectoral Issues," "Social Issues," "Transfer Recipients"—and I think the way the outline was done is fine with me.

**Mr Monte Kwinter (Wilson Heights):** On the first question raised, "Would the members like a paragraph following the opening to make reference to some of the themes that served as context for the presentations?" I have no problem with the ones that are mentioned. Another one that could be added, and I think it was an overriding theme throughout nearly every single presentation, is the growth in the economy, but also the projections in the short and long term. I think that had a great deal to do with the context of the presentations and there should be some reference to that.

**Mr Phillips:** I think we do need a paragraph and I just rely on the research people to kind of pull that together. On the reordering of references to witnesses in the second paragraph, it doesn't really matter to me and I'm not even sure why that's there, but if somebody feels sensitive about the ordering of it, I have no problem one



way or the other. It's just not relevant. But the first one is very relevant.

**Mr David Johnson:** There was some discussion about some of the assumptions, and I'm not sure if that would come at the very beginning or under "Economic Summaries and Forecasts." We have the growth recommendations or the growth forecasts for the next four years, as I recall, in the minister's submission, and I assume that would be one of the charts that would be in.

What I am having difficulty finding are the revenue forecasts associated with those same four years. I don't know if they're available or not, but if they are, I think that kind of information would be excellent to have up front, and then further detail on that, if possible, like how much would be associated with new taxation and how much would be associated with the straight economic growth over a four-year period.

**Ms Campbell:** I think, Mr Johnson, we would be discussing a number of those issues under the next heading, "Economic Summaries and Forecasts."

**Mr David Johnson:** I wasn't sure. If that does come in there, that would be helpful.

1020

**Mr Carr:** I agree with both Monte and David in the answer to the first question, what Elaine has put there about the Canadian dollar and the Quebec referendum. I also agree with the growth rates that Monte mentioned, as well as David, with the revenue.

With regard to the second question about the reordering—and I don't know if this can be done and I'm asking this, I guess, to Elaine—when I look through it, I look by subject matter. One of the problems I had as I looked at it was that if you want to get what AMO said in total you can't do that. You have to look under specifically the topics they put up. Is it too difficult to make reference under the alphabetical listing of, say, AMO in the back, that you record the pages where they are referred to, so that if you would look up AMO it would have page 3, 4, 8, 10 or whatever? Is that too difficult? Does that get into something unworkable?

The reason I'm asking that is that people who want to read the report, who want to hear what AMO had to say, or the OHA, can't hear everything that they talked about. They have to look it up by subject matter rather than by deputation. Can that be done easily, without creating too much work for you?

**Ms Campbell:** The summary that was handed out yesterday is only for those presentations made last week. AMO appeared this week and there would be a discussion of what they told the committee under the heading of municipalities, under "Transfer Recipients." It will be there.

**Mr Carr:** Oh, I assumed we were going to catch up. I know the report that you gave us only had to the 9th. I assumed that it was just a matter of time that we were going to continue on with the same theme and include everyone. You're saying now that AMO won't be—

**Ms Campbell:** It won't be listed separately, but if you're agreeable to the headings as they appear in the table of contents, under "Transfer Recipients" we've got

the MUSH sector, municipalities, universities, schools and hospitals. But perhaps that point could be raised again when we get to that section of the outline.

**Mr Carr:** I guess what I meant is in the back, the listings which are alphabetical by the abbreviations. You've got witnesses' date of appearances. I'm just wondering if for any reference they have into the document, you could have the page number that they are referenced, or is that going to be too difficult?

**Ms Campbell:** You mean an index?

**Mr Carr:** I used the wrong example, I guess, maybe with AMO, but the first one, the Association of Canadian Distillers, what I'd like to see, if you look at the back, is abbreviation, the organization, the date of appearance, and then the page numbers that they appear in the document, any reference. Can that be done?

**Ms Campbell:** The list of witnesses that accompanies the summary of recommendations is a standard form that we prepare in conjunction with the summary of recommendations. It doesn't necessarily appear in the report as an index of who the witnesses before the committee were. I think it was discussed yesterday that the final summary would be prepared, and if anyone was interested in receiving a copy of it, there would be some mention in the report about its availability through the clerk's office.

**The Chair:** Can I be helpful here? I think what Mr Carr is asking for is, he'd like individuals who are looking at this report to be able to flip to the back and see AMO and then an indication of where they might find what they stated in the document so that they could make a reference. What he's asking is, is that going to unduly overtax you or create too much work for you to do with respect to that?

**Ms Campbell:** I think it's a possibility, but it would take considerably more time than I think we have available at the moment.

**Mr Kwinter:** We've been asked further along, in both the sectoral issues and the social issues, whether or not we want to have each issue discussed separately or whether we want to have them merged to focus on the points of commonality of a general overview. Until we make that decision, then Mr Carr's suggestion is of no value, because we haven't made that decision. If I could just talk to that point right now, I'd like to.

The concern I have is that we have had two weeks of public hearings and we've had many groups appear before us. We've also had many groups that haven't appeared before us. If we single out just the groups that appeared before us and make it appear that this is the sole concern of this committee's efforts, it may appear to other people who did not appear before us that they are of no importance and that they don't have a role to play in this.

So I, for one, would be pushing for a more common and general overview of the thrust of what everybody has been saying as opposed to quoting every single person in the report, because again, as I say, that may give the impression to many people who did not appear before this committee that they're of no consequence. I feel that is something we should discuss and make a decision on.

**The Chair:** Thank you, Mr Kwinter. I think that raises a very valid point. The Chair appreciates that because the Chair has indicated to many people who had a desire to be a public witness before this committee that, given the time constraints, their written submissions were of equal importance with respect to the drafting of our report, and I wouldn't want anyone to think otherwise. You're right.

What Mr Carr suggested—and he's going to respond to this shortly—might suggest that, and I wouldn't want to leave anyone with that impression. Ms Campbell has indicated that time constraints probably don't allow the kind of indexing that Mr Carr has asked for.

**Mr Carr:** I appreciate that. If you look at the work Elaine's done, she'll take a topic, there is a consensus, and what she's done is she's put the groups that have given that consensus with their three-digit letters for abbreviations. What that is is very powerful, because what it shows isn't the fact that the politicians sitting around the table have come to this consensus—and I should use a couple of examples here—what it shows is the groups that have come to the consensus, and there's a couple where three or four people have talked along the same lines.

Having said that, I appreciate that would be too much work. I also appreciate the amount of work we put even in the minority reports is a great deal, so we do not want to tax her.

I think what we can do, to be helpful, is maybe get a consensus not only of the groups that appeared for us, but I think there are some things that we can get a consensus, believe it or not, in here on some of these issues that should be put in the report, and then the things that we can't we can maybe debate later on, and then I suspect we will be coming up with a minority report.

If it's helpful, what I think we can do today is maybe come to agreement on the consensus we heard from the public and the things all of us here agree on, and I'll use one example. With the tax situation, the Treasurer said he's not going to increase any taxes. I assume the government members support that. I think the Liberals do and ourselves as well. On some of these issues, I would like to come to consensus with something powerful saying that this committee and the public who appeared before us will recommend that there are no taxes in the budget, as an example. I think, believe it or not, there can be some consensus that we can come to.

So I would I guess like to have some of the information that I talked about, but I realize that that probably will be unworkable. So if we can do that and get some consensus, then I think the report will be valid, because, believe it or not, the four or five points we agree on will be very powerful. This committee can send a message on those issues.

**The Chair:** I understand what you're saying, Mr Carr. I guess you're right, though, it would be difficult to arrive at that consensus, given that some people said there could be some structural tax changes, and indeed some people actually said that taxes could be increased. I know because I heard them say that. So we couldn't say there was a consensus *per se*. However, given what I've

heard so far, I was wondering, would it not be wise to list all those individuals who have contributed a document to this committee with respect to writing this report? Is that an impossibility? Because you know we have had sent to this committee many documents, or are they listed? Maybe they are.

**Ms Campbell:** I think in the past there have sometimes been lists of witnesses included as an appendix in a report.

**The Chair:** But documents that are delivered to this committee where people haven't been a witness before the committee necessarily in a public venue?

**Mr Sutherland:** They can be listed as part of the presentations in the appendix.

On what Mr Carr has been saying, there are two different issues here. One is the report reflecting what people said in terms of their presentations, and then the second issue, which we normally go through afterwards, of course, is, is there a consensus of recommendations we want to make to the Minister of Finance in a report to the House? We spend some time trying to make that consensus, and then those that we don't agree upon, well, we go back and we submit our individual minority reports.

But the first thing we need to do is continue to work through this outline, and once we've got the outline of the report, later on, when we come back for our next two days, I would assume that's when we'd talk a little more about what issues we agree upon and what issues we don't agree upon.

Just one other one. In question 1, I would also add the issue of the federal budget as one of the contexts for the presentation, because that was mentioned quite a bit too.

**The Chair:** I'd like to clarify something, because it concerns me that the public who are watching and who are ultimately waiting for this report understand that all the documentation that comes before this committee is taken into consideration when we write this report.

For example, and I use it because it's recent, the Dialysis Management Clinics Inc submitted a document to us today for our perusal and for consideration when we write this report. I wouldn't want to suggest or leave the impression with anyone that all the documentation we've received hasn't been taken into consideration when we make this report, yet somehow as I've listened, and maybe I'm mistaken, it seems that there's more credence or more weight given to the people who made the public presentation versus those who made presentations only through a document like this.

1030

**Mr Sutherland:** Written submissions could go in the appendix. They can be listed as part of the presentation.

**The Chair:** I just don't want the impression out in the public to be that we have not given consideration to written submissions, when we have. Wouldn't we all agree? Yes. Very good.

**Mr Phillips:** I think we may be down on detail. The report last year listed all of the witnesses and I would think it should list this year all of the witnesses and all of those who made written submissions. And I would hope that the second thing we have is something not unlike



what the researcher prepared on the various recommendations we've received under various headings.

I don't think we'll be able to go through each of those recommendations and say "I agree," or "I disagree with that." I think it's legitimate to put forward those recommendations and say, "These were recommendations from groups and they formed part of the thinking for us when we were preparing them." But we will drive ourselves crazy if we debate each recommendation. I think the reasons for the witnesses coming were, firstly, to give us what the perception is out there, what groups are feeling and what they think we should be doing and providing us with a broad cross-section of recommendations. The second thing is, many had unique, good recommendations we should try and pluck out if we can. But I think what we want to do is to assure those who appeared before us and those who sent their written briefs that they've all been considered.

Mr Carr wanted in the document a list of where their recommendations appear in the report. This is detailed, but it's fairly easily done by the research. For example, last year we had a list of witnesses: CFIB, Canadian Federation of Independent Business, date of appearance. If we also simply list pages in the report where their recommendations are recorded, maybe that helps you, Mr Carr. If you want to know, "Where's the CFIB's thinking?" it would simply say page 21, page 24, page 26. That is detailed, but I think that may solve part of our structural problem on dealing with this thing.

**Ms Campbell:** I'd just like to respond to Mr Phillips's remarks. There is some concern arising out of the members' concern that there be a proper representation of all the presentations that were made to the committee, both oral and written. It might be very difficult to incorporate individual references to every organization that made a presentation to the committee. I'd be concerned that if people looked at an index and maybe didn't see their name there, they'd be concerned. That's a problem that could arise out of this and we're trying to prepare—

**Mr Phillips:** If I might respond, last year in the report there was a list of witnesses, and before that there was a variety of pages that indicated the comments that we'd taken out of their proposals. I gather there is a plan this year to have a similar chapter in the report—let's take "Economic and Fiscal Policies," where there's a series of comments from various groups. All I'm suggesting, and this is just a small point, is that when we list the witnesses, we list the pages that have references from them.

**Ms Campbell:** The summary that you're making reference to in last year's report dealt exclusively with the comments on the Fair Tax Commission report. There was no summary of the comments made about the general pre-budget consultation.

The committee did decide yesterday that a final summary of recommendations would be made available and there would be reference to the availability of that particular document in the report. It would be made available through the clerk's office rather than being made part of the actual report.

**Mr Phillips:** Okay.

**The Chair:** Ms Haslam, and thank you for being so patient.

**Mrs Haslam:** You're welcome. I would like to reiterate what our legislative help is. This is only one week. To put all of this in the report we'd have to double that, and I can't see that. I think what Mr Carr is talking about is something like a footnote: who said this and who said that. What I see in a general report to the Treasurer is an overview, and if anybody wants to get into the details those details are available in Hansard, those details will be made available with this type of information. But in the report that we're giving to the Treasurer, I think we're looking at a more general overview of what's being said and what this committee is recommending, and I would rather see that than have the clerk go through everybody's presentation and written document and indicate a page where it fits into the report. It's ludicrous to have her sit there and index everybody's words in this report. I think this report was meant to be a general overview, and that detail is certainly available should other people want to take advantage of it.

**Mr David Johnson:** Ms Campbell, a question about the number of quotations you would probably use: I suppose you would say at this point you haven't determined, but if you were to hazard a guess, what would be a normal course? Would we be talking about hundreds of quotations or dozens or 10? Roughly what ballpark?

**Ms Campbell:** I'm afraid that at this point in time I can't hazard a guess because I haven't started actually writing the report. Secondly, I think much of that will depend on what the committee decides to do in terms of the content of the report in the following sections.

**Mr David Johnson:** My guess is that it wouldn't be a great number of quotations, that there would be a general flow to the report, I would think, and then you would perhaps, at appropriate points, support that with a quotation from a particular group. As I understand what Mr Carr is asking for, it's not to quote each and every group in the report, but in the normal course of events if a group happened to be quoted, whether it's the CFIB or whatever it is, whatever group happened to be quoted, that simply be noted so that it could be easily found. It would seem to be that what he's asking for is, in a sense, that you write the report in the normal way with a normal number of quotes etc, whatever that is, and then just note that in the reference part of the report.

**Ms Campbell:** I think the term I would use is "reference" as opposed to "quotes." "Quotes" implies that you're quoting verbatim from what the witness said. References would be made if one organization made a general comment that was indicative of how other people felt. We might make direct reference to them, saying they represented the general feeling, or make a general statement that, "There seemed to be a consensus that...."

**Mr David Johnson:** You see that as being an onerous task, do you?

**Ms Campbell:** There would be perhaps some technical complications involved in preparing indexes.

**Mr David Johnson:** All right. Maybe we're beating this to death. Maybe we should just allow you to give

some thought to this. But it seems to me like a bit of a mountain is being made out of a molehill. Whenever a reference has been made, simply make note of that in some index in the back. That's all that's being requested. Maybe as you go through it you'll see if that's possible.

**Ms Campbell:** Could that be discussed when the committee has had a chance to look at the draft report and we come back for general discussions?

**Mr David Johnson:** That might be possible, sure.

**The Chair:** That's a very good idea, Ms Campbell. Mr Carr would like to conclude this.

**Mr Carr:** Since I started this whole thing. I said we'd get consensus; we can't even get consensus. It was very simple. Turn to page 2, if you will, under "Provincial Deficit and Debt." Elaine has already given us the people who have commented on it. It's not a lot of work. The APMAC, ONGA, COMER, COCA and the CMA were the ones in her report that commented on that. All I would like to do, and I like the outline the way it is, is after the outline that she is going to prepare, we put those symbols there of the people who spoke to that issue and in the back we alphabetically list those people. That's all I'm asking for. It's no big deal, and maybe I didn't explain myself, but I also will say this: If it's too much trouble to do it—quite frankly, you have already done it—I would withdraw it and let's just move on.

1040

**Mr Sutherland:** That is much different from what I thought he was asking for. I believe that has been done at times throughout the report, where the acronym for the organization was referenced in past years. I thought that earlier what he had indicated was he wanted the acronym, or at the end, where the lists were, he wanted to come out with which page in the report the acronym was going to be found under the different subjects. So what he said now, I believe, is what has been done, or maybe not all the groups listed, but there has been some reference noted that a group made some reference to that specific topic.

**The Chair:** I think the most important thing here is that Ms Campbell understands what needs to be done, however the rest of us see it, and I think she does.

**Mr Sutherland:** You're right. That's far more important.

**Mr Larry O'Connor (Durham-York):** Actually, this is really exciting television, no doubt. I'm glad we've got the report discussion here on camera.

I'd like to refer away from this detail that we're dealing with and refer to what Mr Johnson referred to earlier on. He had talked about a chart that may reflect projections of revenue and what's coming from different sources to the government. I would like to add to that request and suggest that maybe what should be included in there as well is, given that in the framework of what we're talking about as far as the different headings—the sectorals, the transfer payments to our MUSH sectors and what not—somewhere in there we also include a chart of the transfer payments we receive from Ottawa, and we'd probably want to go back a few years.

It's pretty hard to project, because Mr Martin hasn't come up with a budget. We've heard a lot of noise to this

point, but that budget hasn't been laid out. If we can look back, maybe, to get a perspective of what we have been able to expect from the federal government in transfers, we can include that as well, because people will no doubt take a look at this document and try to figure out how the Ontario government comes up with its budget.

There are obviously suggestions that have been made to us through this committee hearing process, and I think that would be good background information to be included. In fact, I think some of that information probably is very readily available in some of the budget consultation documents that have been prepared by the Ministry of Finance already.

**The Chair:** We have to decide if we're going to include graphs or anything like that in this report. If we do, we can't use any singular graph. We'd have to give an overview or a complete indication of all those graphs with respect to any particular matter. Mr Kwinter was one who was concerned about how forecasters arrived at the particular numbers they arrived at. We've had many forecasters, and if we're going to put in a graph with respect to that, we'd certainly need to have a range.

**Mr David Johnson:** Can I assume then, Mr Chairman, that we're on to page 2, under "Economic Summaries and Forecasts"? I think that question is sort of tucked in under that section. If we are, could I ask legislative research, Ms Campbell, what sort of information she was going to put in under "Key Economic Indicators and Projections"? Perhaps Mr O'Connor's suggestion would come in under that category, along with my request.

**Ms Campbell:** In past years, we have looked at the principal economic indicators such as real GDP, employment, unemployment, inflation rates and, in many instances, housing. There have certainly been references to other indicators as well, such as interest rates.

**Mr David Johnson:** Interest rates: That would be helpful. I would certainly hope that interest rates would be included. Mr O'Connor's request was for federal transfers, I guess, or other transfers.

**Mr O'Connor:** That would impact on what the fiscal situation is, the parameters the Treasurer is going to have to deal with in coming up with the budget.

**Mr David Johnson:** Is that an economic projection?

**Ms Campbell:** It hadn't been one I had considered, but there could be references to federal transfer payments in this area if the members would wish that it be there. It might be a little more difficult to find an appropriate chart within the time frame that we have been allowed.

**Mr David Johnson:** Personally, if you're referring to a graph as something that looks like this, and if that's a problem in terms of making it up, I don't need a graph. A chart with just the straight numerical information is fine, as far as we're concerned. But under "Projections," would you be including provincial revenues that are projected for the next few years? Would that be one of the projections?

**Ms Campbell:** If the committee would wish that to be there, we could perhaps—

**Mr David Johnson:** I would certainly find that



helpful. I notice that the Finance minister in his submission has projected Ontario growth, for example, for the next four years, from 1995 through and including 1998. Would it be possible to have our projections on the same time basis as the minister's projections for economic growth?

**Ms Campbell:** Are you perhaps suggesting that we use some tables prepared by the ministry?

**Mr David Johnson:** Yes and no, I guess. I assume, again, that there'd be a range of information. Is that how you normally do this?

**Ms Campbell:** There might be some difficulty in doing additional research to find the information you would like to have included. As has been said, we have a week to put this together.

**Mr David Johnson:** Certainly, the minister has made a deputation to this committee, so I would assume that the minister's information would be part of the report, whatever information has been conveyed there with regard to economic growth, revenue growth, tax growth pertaining to that economic growth over the period of time, and any information that any other source has given. Several of the bank groups gave information—I believe the Royal Bank, for example, gave information—and various other groups or associations gave information. I would find that sort of information very helpful, over a four-year period, if it's possible.

**Ms Campbell:** We'll see what we can do.

**Mr Sutherland:** I just want to comment on that issue. I think my colleague Mr O'Connor is right in terms of reference to transfer payments, because that issue came up from many of the groups.

But I'm not sure we're going to be able to respond to Mr Johnson's request. It may be just me. While we've always had economic projection growths put forward for out years, I don't ever recall seeing a revenue projection put forward for the out years. I guess some of that has to do with the fact that each year, as you're preparing the budget, you determine those revenues and what you do on the tax side, and those tax decisions are usually made on an individual-year basis rather than on a three- to four-year projection in terms of what's there.

I really don't know how you're going to come up with what Mr Johnson is asking for in terms of revenue projections for the next three to four years, because the only projections I assume the ministry could put forward are those projections based on what the system is right now for this year. Based on this year, if we don't make any changes one way or the other over the next four years, we can say the revenue projections would be X, based on what we're saying for some degree of the economic growth.

I'm not sure there's a lot of value in trying to produce three- and four-year revenue projections, given the way our budget-making process is done each year, looking at taxation issues on an individual basis.

1050

**Ms Campbell:** I'd like to respond to Mr Sutherland's comment and indirectly to Mr Johnson's. I guess this raises the question, does the committee want the report to

be a summary of what was actually presented to the committee in the hearings, or what is available in addition to what was presented to the committee?

**Mr O'Connor:** Mr Chair, if I might, when you consider the point raised by legislative research, the request I made actually wasn't presented to the committee, so maybe it doesn't belong in the report, in fairness to the way it's going to be presented. The reference to the transfers, as they've been outlined in pre-budget consultation information put out by the ministry, was in a different context. It was put in the context of where Ontario stands in terms of its share of transfer payments as opposed to other provinces, in the pre-budget consultation information. Maybe in light of that, it doesn't have the place in the report as I was suggesting.

**The Chair:** With respect to what Ms Campbell has asked, I guess we need a consensus here.

**Mr Sutherland:** It should reflect what we've heard.

**Mr Kwinter:** I'll combine a response and what I want to talk about. I'd like to give a dissenting opinion.

I think the mandate of this committee is to advise the Minister of Finance in the pre-budget consultations. I don't think it's necessary just to report on what we heard. If that is the case, we don't have to be here, all we have to do is say, "Make your submissions," because the people who come in have virtually just been reading their submissions, and, with all due respect to all of us, to get two minutes or three minutes to ask them a question is in my opinion absurd, because it doesn't do anything other than fill the time.

It would seem to me that we have a responsibility and an obligation to give some advice to the Treasurer, and if there's information available that is pertinent but we haven't heard it at this committee, I don't think it makes any sense to say, "Forget about it, because no one brought that up." We have that obligation; I think we should fulfil it. If there's information available, if it's going to be useful and helpful to the formulation of the budget, I think it should be included. That's my response to that specific issue.

I would like to suggest, on the basis of information we could include—it's unfortunate my colleague isn't here because I think he knows what the factor is. For every growth in the gross domestic product, there is a factor that can be used to tell what it means in the way of revenue.

If you take a look at the letter we got on February 9 from Steve Dorey, the assistant Deputy Minister of Finance, he sent us Ontario Survey of Economic Forecasts for 1995 from a variety of groups that do this sort of thing. He's got some out years projected, again from a variety of people, right through till 1998, and he's got the averages for 1995 to 1998. I think that would be useful to include in the report. It actually is a submission to this committee because it was forwarded to him for our benefit, and I think that might be of use.

**Mrs Elinor Caplan (Oriole):** I don't want to repeat and waste the time of the committee, because Mr Kwinter covered much of what I was going to say.

The factor on revenue growth that's usually accepted

is that you take 90% of the growth in GDP and that will give you your revenue growth over time, as the factor.

Many of the members on the committee, certainly myself, meet on a fairly regular basis with people who, for whatever reason, don't want to come to committee, are unable to come to committee, have an interest in what the committee is doing but are too nervous to come before committee, so they speak to us and we hear what they have to say. Certainly the committee time has been relatively limited as well. There just isn't time to hear from everyone. I'd point out that Mr Bruner was one of the few individuals not representing a group or organization who appeared before the committee.

If we have heard advice from constituents and interested persons or experts, perhaps we should consider that and be able to include that in our recommendations to the Treasurer as he prepares his budget. Some of it's included in other presentations and some of it I think is quite independent. I think we should be open to do that.

I don't think what we want to do is get into a massive document which is in any way a repetition of information that is in other places. My advice to research would be to, wherever possible, look at the streamlining of appendices. I personally like the bibliography approach, where it's noted and listed in that way, and research has done an excellent job in past reports in making sure that it's there and it's noted. I also like the suggestion of Mr Phillips that, wherever possible, put a page number for the reference for those who have made presentations.

But I would stress that we have a responsibility here to give the government, the Treasurer, advice as they put the final touches in the drafting of the budget that is expected within the next couple of months. If all we do is simply reiterate and restate what was put before the committee, I think we're not doing our job. Certainly we want to tell those people who came before committee that we heard them, we listened to them, and for those who didn't have the opportunity to come here, to know that we listen to our constituents, hear what they have to say, and try to reflect that in advice and recommendations to the Treasurer.

I also think that one of the most significant things we heard, and something I'm very concerned about, is the whole issue of transparency, accountability and openness, so that people can understand the numbers in the budget, which the Treasurer has said is his planning document.

The very first item we are going to be dealing with is the advice from the Provincial Auditor. In that section it's important that we have a very clear statement from this committee that we support the Provincial Auditor in his advice to the government that it present the budget in a way which is consistent with the way the books are presented at the public accounts committee at the end of the cycle.

We agree with him that the confusion must end, because that's in the interest of the public and public accountability. I hope this committee will stand firm behind the auditor in making that recommendation, because the public interest demands that we set aside the opposition and government roles and hats we wear and recognize that the advice from the Provincial Auditor is

the advice that is in the public interest and that we support that. I want to be very clear about that. I hope that will be included in our report. If it is not clear that we support the Provincial Auditor as a part of this report, then I think the report we put forward in fact will not be significant.

**Mr Carr:** I agree with what Elinor and Monte said. I'll speak to the previous point rather than getting into the auditor, although to keep it flowing I'll get into that. I don't want to spend a lot of time on this, because if it isn't in the report we're going to put in a minority report.

What might be helpful with the reference to the federal transfers—as you know, the government, on pages 98 and 99, puts the budget revenue in dollars, cents per hundred or a percentage. We can include that with a reference to, say, 10 years ago. I have the budget from 1984. I don't think the NDP will want it in there, because when you look at it the federal government payments used to be 17% and they're now 16%. It flies in the face of what the Premier is saying, so you'd better be careful. I don't think they're going to want it in there, for political reasons, but I suggest that we do that, going back to what Larry said about the federal transfers.

Can we do that, compare 10 years ago? The figures are right there. Elaine doesn't have to do a lot of work; I can give them to her. Can we include that in the report?

**The Chair:** This is to be determined, Mr Carr, what is or is not going to be included in the report. I just remind you that it's not a minority report that you'll be submitting; it'll be a dissenting opinion.

**Mr Carr:** Whatever we call it.

1100

**Mr Sutherland:** Can I just make a couple of comments? This report does a couple of things. First, part of the main content of the written report that we asked the researcher to do is to try to summarize what has been presented. It's not just a regurgitation, but to try to summarize the main themes, the main comments etc, under different categories. That process, in my view, is separate from any recommendations we want to make on any issue, whether it's what the auditor said or what have you. I think it's important that we try to keep those two issues separate, because they both are important parts of the overall process. But we have always traditionally tried to summarize what has been presented through the different categories, and I think we should continue with that approach. The point I was trying to come back to with respect to what Mr Johnson had requested, which is revenue projections—I think the economic forecasts of growth are fine. What I was trying to say earlier, though, is that I don't think trying to put in a chart of revenue projections is that meaningful in terms of the out years because, as I tried to say, revenue also gets decided on a yearly basis in terms of what you do taxwise, whether you do tax cuts in certain areas, whether you do tax increases, whether you leave it the same. All I'm saying is that you can put those revenue projections in for the next three to four years, but I'm not sure that's a very helpful process.

I think the economic forecasting is helpful because



obviously that's going to influence what you do on your revenue side, whether you decide maybe to cut taxes, maybe to increase them, and it gives you some sense. I guess what I'm trying to say is that the only base you can use in deciding those projections is the current-year base in what those revenue projections are. I just don't think looking for the revenue projection figures is going to be that helpful in determining what, overall, is going to happen in the out years, because there are so many variables between now and then on what will influence those revenue projections.

I wasn't around here between 1980 and 1990 to know whether that was ever done in a budget, but I don't recall us putting those figures in a budget or doing them in our past reports. That doesn't automatically mean that's a reason for exclusion, but I just don't think people see that as the important piece of information.

The economic growth figure does seem to be an important one, and Monte's comments about putting in the reference to where the forecasts are. I take note of the researcher's comments that because, as usual, the economists don't present their information in a common form it's very hard to put that into a graph situation, but we could have reference to what the economic forecasts are.

I question, though, what importance or what real meaning we're going to get out of revenue projections four years from now based on this year's situation.

**Mr David Johnson:** The reason I made that request is because most of the deputants, if not all, did refer to the issue of the deficit and the debt of the province of Ontario. I would say the vast majority said that this was the number one problem that should be addressed. There were a few, one or two or maybe three, who indicated that there's too much urgency being paid to the deficit and the debt, but I think by far the majority said that's what we have to come to conquer. I see the parliamentary assistant nodding his head in agreement.

In addition, the auditor has been brought into this fray, and he did himself request, in unprecedented fashion, to be able to come before this committee and explain his concerns. His concerns were essentially around the same issue, the deficits and the debt of the province of Ontario and ensuring that the deficits were reported in what he feels would be an accurate representation. Again I see the parliamentary assistant nodding his head in agreement. That seems to be really one of the focal points. Are you still the parliamentary assistant?

**Mr Sutherland:** Yes.

**Mr David Johnson:** Yes, right. Good.

That seems to be one of the focal points of this whole exercise, and if we're going to make recommendations or presentations through this report to the Minister of Finance that would capture the real essence of what happened, I think we would have to do so fully on that issue of the deficit and the debt. The submission of the Minister of Finance, for example, does give the projections of the deficit for a four-year period: 1995, 1996, 1997 and 1998. This is, again, a key issue. I'm looking at the plan for the province of Ontario for the next four years in terms of that key issue.

How is the deficit calculated? What key inputs go into the deficit? It would seem to me that among the top three key inputs into the deficit calculation is economic growth. We do have a forecast for economic growth. There would be many who would say that it's quite a rosy forecast for economic growth over the next four years, including myself, but at least we do have that kind of forecast from the government of Ontario.

Another key aspect would be revenue growth, either through tax increases or economic—well, economic growth we've already talked about, so, for example, revenue growth associated with tax increases. How can the government forecast what the deficit is going to be if it doesn't forecast what the revenue growth is going to be? How is it that we can establish what the deficits are if we don't know the key components of it?

What stock can we put in this most important issue of deficit forecasting if we're not prepared to put down what the numbers are that went into its calculation, the numbers such as economic growth, which we have put down, but tax increases, revenue growth associated with tax increases, or indeed the expenditure cuts, I presume. Otherwise, the deficit calculation makes no sense. Here it is on paper, but there's nothing to back it up.

I agree with those who would say we owe it to this process to go a bit beyond just summarizing what's on the pages. I don't think we ought to concoct absolutely new issues. If nobody has referred to the issues, then I don't think we ought to concoct them out of thin air, but certainly deficits and the debt problem have been referred to by everybody and I think in this report we owe it to the whole process to explore this very key issue of deficits, how we see it unfolding over the next few years given the projections that we've seen, and they would certainly include revenue growth as well as economic growth, expenditure cuts, that sort of thing. How do we come to these calculations?

I'd like to see that whole story explored because I think that's the number one story out of this exercise. I believe the auditor in his comments is coming at it from a slightly different direction but he's saying the same thing, that it's important to the people of Ontario that they get an accurate picture of deficits and—

**Mr Sutherland:** But on a yearly basis, not on that three-year projection.

**Mr David Johnson:** He's talking on a yearly basis, but the Minister of Finance is reporting four years: four years of economic growth, four years of deficits. The deficits only can be meaningful if the assumptions behind them are clear, the assumptions on increase in revenues, reductions in expenditures, any other assumptions that have gone into them. If they're not clear, then this isn't worth the paper it's printed on.

**Mr Kwinter:** I'd like to follow on on the discussion. There are figures that show what the projected revenues are going to be, because it's a direct correlation to the growth or the decline in the economy. The other problem you have is that I think the very basic question that we as a committee are going to have to address—and there certainly wasn't unanimity in the deputants who appeared before us—is, do we grow ourselves out of the economy

or do we cut expenditures? Without calculating what it was, it seemed to me, again just from my recollection, that there were probably more people feeling that you couldn't grow yourself out of the problem, that you had to deal with expenditure cuts, which means there has to be some kind of a benchmark as to how you make that determination.

1110

Again, we have projections as to what the growth in the economy is going to be, and there are projections. They may not be quite accurate because they're just projections, but there are certainly projections, and as Mr Johnson said, there is no way that the treasury department can calculate what a deficit is going to be three years down the road unless they know what their revenues are going to be and what their expenditures are going to be. So I think it's important that we have that information in the document, just so that whatever recommendation this committee makes can at least be referenced to what the projections seem to be for the next three or four years.

I think that's important, because I think the key issue this committee is going to have come forward with is, how do we plan the fiscal recovery of this province? Do we do it by growing out of it, do we do it by cutting expenditures or do we do it by both, and to what level? That can only be planned based on figures that have some semblance of reality and give everybody who has to make those decisions some basis for making those decisions.

**Ms Campbell:** My question to the committee is, are we through with the section dealing with economic summaries and forecasts? Is the committee agreeable to the main points? I think I've taken notes on other specific projections, such as revenue projections, if those are readily available, and those will be incorporated into the report. We'll review the presentation made by the Ministry of Finance plus other ministry documents that have been prepared over the last year and combine that with what the forecasters presented to the committee.

**Mr Carr:** Just speaking to the first point, I take it then that there isn't a consensus on the federal transfers. If there isn't, let's go on and not put it in. There's not a consensus on that?

**Mr Sutherland:** I think there's a consensus that the issue should be referenced.

**Mr Carr:** Okay, but not how we're going to do it.

**Mr Sutherland:** The other thing we need to keep in mind with the federal transfers is, it isn't just the straight dollar issue, because a lot of the programs, of course, are funded on the basis of your population, so you have to take into account population growth.

**Mr Carr:** Well, the total number is moved up too.

**Mr Sutherland:** Yes. Well, your population growth, and then, has the amount of dollar support been consistent from 1984 to 1994 on the population growth basis? Of course, when we get into this whole argument between this province and the federal government, it comes into the issue of the capping at the 5% increase per year and that the growth in some of those programs due to, particularly when you go back to 1991, the hard

impact of the recession and social assistance was far beyond 5%. I guess what I'm saying is, when you talk about that issue, you can't talk solely in what the actual dollar amount is, because that isn't the basis the programs were supposed to have been funded upon.

**Mr Carr:** What do you want see in there? Not to jump in, but what do you want to see? I told you what we want to see. What do you want to see, and maybe we can come to an agreement on it.

**Mr Sutherland:** What I would like to see is references made from the presentations on their concerns about transfer payments, and the Ministry of Finance made some reference to it as well. If the researcher reflects those comments that have been made, I think that's fine for now.

**Mrs Caplan:** On this discussion, what I think is really important is that we come to a recognition that there is one taxpayer, and whether that taxpayer is paying federal, provincial or municipal taxes, they are feeling the tax burden, they are saying, "Enough is enough," and they're also saying: "Stop your finger-pointing. It doesn't matter where it's coming from, I'm paying." This is what I'm hearing very clearly. So it's not a question of this committee sitting around and attempting to say it's not our fault. I see Ms Haslam nodding her head. The reality is that we have one taxpayer in this province and one taxpayer in this country and we've got to get busy solving our problems.

**Mr Sutherland:** And the presentations made that comment. So that would be reflected.

**Mrs Caplan:** They made it very clear that there was one taxpayer and that's what was represented here. We may all have our differing points of view or even our partisan philosophies. The reality is that we face fiscal problems that have to be addressed and there's only one taxpayer who's going to be able to foot the bill and he's saying, "No more," whether it's federal, provincial or municipal.

**Mr Sutherland:** Yes. But then of course the other question comes out of that: If that's certainly the case, that there is one taxpayer, how is the federal government going to renegotiate the basis of its programs and the basis of how those programs have been set up and established, and as we're saying, if there are no more new dollars in that sense, what are they going to do to develop a more fair system in terms of the distribution of the dollars they're providing to the provinces? I think that's where the issue comes down as to what that fair share should be, and then how are we going to distribute those dollars, that is, in a fair manner for this province?

**Mrs Caplan:** I think there's no question that everyone recognizes that there is a problem and that solutions have to be found and that some of those solutions will be found through discussions and negotiations. But the other message I'm getting loud and clear from my constituents is, "You guys have to start working together." They're referring to all levels of government and they're saying, "Just remember"—

**The Chair:** And we can start right in this committee, I have no doubt. Mr Carr.



**Mrs Caplan:** Okay. Exactly.

**Mr Carr:** I agree with Elinor and she's right about the public. What I'm getting at is when Mr Sutherland was giving direction to Elaine to say what the government said in that regard, because they are wrong. I don't want us to give direction to Elaine to use what the government said when they came here, or the Minister of Finance, because he was wrong in his assessment.

So Elinor is right that they don't want any finger-pointing, but I don't want the spin in our report to be the Minister of Finance's spin because Elinor's right. We will argue about it and it is not a consensus on it—

**Mrs Caplan:** That's right.

**Mr Carr:** —because I think he's wrong.

I agree 100% with Elinor. The point I want to make is, when Kimble said to Elaine, "Use the consensus that came from the Minister of Finance," I cannot agree with that because they are wrong.

**Mr Sutherland:** That isn't quite what I said.

**Mr Carr:** Okay. I hope so.

**Mr Sutherland:** What Elaine said was that she would review the Ministry of Finance presentation, and I think as part of that presentation there should be some reference to the transfer payment issue. There are also other people who commented on the transfer payment issue and some of the forecasters, whatever, and a sense of what those people said about the issue should be reflected as well. I don't think you can ignore what the Ministry of Finance has said, but I'm not saying that should be the only source referenced in the report. Okay?

**Mr Carr:** One thing we can agree on then is what Elinor said, and she said it fairly eloquently: Can we put in there the agreement that this committee agrees, as she said, as I agree, with the fact that the public out there is frustrated and does not want the finger-pointing?

How we can frame it, there are some concerns out there about federal transfer payments, but what we heard is the public is one taxpayer and what Elinor said. Can Elaine incorporate that and can we agree, as a committee, that in fact, notwithstanding the different opinions on it, we agree here that we cannot be finger-pointing, that we have to work together and make a recommendation, as Elinor suggested, as a committee that this finance and economics committee recommend to the government that we work together because there is only one taxpayer and that's what the people want? Can we get that consensus in there?

**Mr Sutherland:** Okay. But again, you're asking now for the recommendations. What I'm saying is, right now we're going through the content of the report. The recommendation process comes at the end.

**Mr Carr:** That's a consensus of what we heard, I thought. Maybe I'm wrong.

**Mr Sutherland:** All I'm asking Elaine to do now is to do her review as she was going to do in terms of the Ministry of Finance and of course of the other forecasters with some reference being made to the issue of the transfer payments. When it comes back, then we'll decide, as we do with the rest of the content of the

report, how we agree with how it has been presented.  
1120

**Ms Campbell:** I think the issue of cooperation and, to expand it a bit, partnerships was emphasized by many of the people who made presentations and I think that was a theme that linked all the sections of our outline. That perhaps could be emphasized within "Economic Summaries and Forecasts," that issue of partnership or cooperation introduced at that level and then just repeated perhaps in the others.

As far as the issue of public frustration with taxation is concerned, perhaps that's something we could discuss under "Economic and Fiscal Policies," where it's suggested that one of the themes there be taxation.

**The Chair:** Does that conclude then our committee advice with respect to "Economic Summaries and Forecasts"? If it does, then we should move on to the "Economic and Fiscal Policies" portion.

**Mr Carr:** The auditor would fall under which section?

**The Chair:** The section that we're at now.

**Ms Campbell:** The note under "Economic and Fiscal Policies" states, "Witnesses made many comments and recommendations that focused on provincial economic and fiscal policies." As I stated earlier, a number of themes had emerged during the course of these presentations. We've listed three of these themes: provincial deficit and debt, taxation and private-public sector partnerships. These are merely three of the themes. There are others that one can find by looking at the summary of recommendations.

There was a group of presenters who dealt with issues relating to issues such as fees and non-tax revenues, regulation, red tape and paper burdens. There were a number of recommendations dealing with issues related to employment and job creation, government services and labour costs, capital and operating expenditures. We have pulled out three which seemed to have a number of comments made under them.

As I said, the first one dealt with the issue of provincial deficit and debt, then taxation and public-private sector partnerships. My question to the committee is, is the committee amenable to focusing on a few themes or would they like to discuss more than this?

**Mr Sutherland:** I think the issues highlighted were certainly main issues that the presentations put forward, so I think this outline is very good. My only suggestion is, under "Taxation," under bullet point 3, "references to specific taxes," I think we should have a separate section on property tax as well—maybe it's just that we heard a lot more in the last couple of days about that—the issue of property tax in terms of education and also the issue of assessment because—as I say, maybe it's only because it came up more in the last few days—I think those issues should be reflected and some reference to that put in there. Overall, I think you're covering those issues.

I would like to come back to the questions you've outlined under "Economic and Fiscal Policies" at some point though. I have some comments on that.

**Mr David Johnson:** Certainly the issue of assessment

and property taxes did come up, there's no question about that. If we think back, although they were very prominent in the last two deputations that we heard with regard to farm assessment and shopping centre assessment, I suspect many of the business sector presentations had that buried in there somewhere as well, because property taxes are becoming a real concern in the business community. I would agree if that would be added on.

But another concern was payroll taxes. Did I miss payroll taxes here somewhere?

**Ms Campbell:** We just picked three to put in there. There were comments on that.

**Mr David Johnson:** Can I suggest that payroll taxes be added? The CFIB, for example, the Canadian Federation of Independent Business, did recommend that the employer health tax be eliminated for small businesses. I don't know if workers' compensation would necessarily fall under there, but certainly references were made to workers' compensation.

**Mr Sutherland:** Maybe we should qualify, then, "payroll taxes and payroll premiums."

**Mr David Johnson:** "Payroll taxes and payroll premiums" would be fine.

**Mr Sutherland:** Because workers' compensation is not really a tax. I know the perception is that it is.

**Mr David Johnson:** Yes, I understand. I was trying to bring it under the broad umbrella. Certainly there's a great deal of concern for payroll taxes and premiums, if you will. Could that be added?

**Ms Campbell:** Yes. You'd like to expand on the issue of government-mandated costs?

**Mr David Johnson:** Yes. What else do you contemplate under—

**Ms Campbell:** Would you like that under the taxation issue or would you like to put that under another section dealing with the regulation-red tape issue?

**Mr David Johnson:** It actually falls under both, you're right, but the employer health tax is very definitely a tax and it's certainly viewed that way by the business community, so I think it should be dealt with under taxation. Mr Sutherland's suggestion that the word "premium" be added is fine by me, because I think the WCB cost should be included there as well. If you want to deal with it further under red tape and regulations, wherever that comes up, then that's fine as well, because that's certainly a consideration. But that would go beyond the employer health tax and WCB costs, because the business community, as we've heard through the presentations, is concerned about other pieces of legislation that it would consider to be red tape, such as Bill 40, which was mentioned a few times during the various presentations. I'm a little uncertain. How do you propose to proceed? Do you propose to do those in two different sections?

**Ms Campbell:** I'll leave it up to the committee whether it wants to develop more than the three themes that are listed here, what other themes.

**Mr David Johnson:** My suggestion is very definitely that you add, as has been suggested, assessment and

property taxes as a fourth, and as a fifth, you add payroll taxes.

**Mr Kwinter:** I'd like to recommend that we expand the categories by the two that were suggested by legislative research. I think the whole issue of non-tax revenues, fees and charges, is one that is of great concern. What has happened is that notwithstanding that the 1994 budget was hailed as no new taxes, there were lots of new charges, lots of new financial obligations by citizens of Ontario, and I think that's something we should address.

On the issue that Mr Johnson just referred to, the idea of red tape, again, the paper burden and the red tape are actually reflected in the dollar cost to the citizens of Ontario and are part of the economic policies that we should be addressing. So I'd like to recommend that those two areas be added to the list and that suitable comments be made in those areas.

**Mr Carr:** I agree. What I think we could do to be helpful and to speed it along a little bit, the table of contents has listed under taxation, if you refer to page 1, a couple that were added, like Dave and Monte said. I'm quite comfortable with doing it under the heading of "Taxation," and you've got capital corporation, employer health tax, add those others and continue on similar to what the table of contents is, whereas you see that fees and so on, on page 9, and regulations, are dealt with on their own. As I said right in the beginning, I think the table of contents, if we lay it out similar to the way Elaine has already done it, adding those two would be the way the format should work.

**Mr Sutherland:** Just a point on that. The one issue I guess I want to add and the reason I think it goes under here is that we haven't talked about the issue of job creation. I think there should be some discussion regarding the issue of job creation under this section and the impact of unemployment etc. I guess related to that issue are the issues the Finance minister highlighted. We could make some reference to youth unemployment, the work week issues, length of work week, too long, too short etc, some reference and discussion of that under this section as well.

**Mr David Johnson:** In terms of that issue, Mr Sutherland, job creation, the Ontario Restaurant Association made quite a plea for job creation, but their issues were somewhat different. They included, as I can recall now, the introduction of video lottery terminals, VLTs, and non-harmonization of GST and PST.

**The Chair:** And the gallage tax.

1130

**Mr David Johnson:** And the gallage tax, that's right, the elimination of the gallage tax. If we're to do a job creation section, which I certainly have no difficulty with—because I think job creation is one of the biggest issues we face in Ontario today and it should be definitely in the private sector, setting the table for the private sector to be able to create these jobs and that's what the Ontario Restaurant Association is saying. Could you include their views in that type of section?

**Ms Campbell:** The proposed outline has a third section entitled "Sectoral Issues." The question posed to



the members under that section is whether they would like individual sectors discussed or whether they would like to have sectors merged or points of commonality presented in a general overview. The foodservice sector is listed there. In the past, we have discussed the specific concerns of a sector in this particular area. My question to you is, would you like that changed so that the specific concerns of a sector related to job creation were incorporated under the heading "Economic and Fiscal Policies"?

**Mr David Johnson:** I would certainly think any analysis of job creation would have to be thorough. An industry like the Ontario Restaurant Association represents a huge industry, number one; number two, it's an entry level. I would think there'd have to be at least some reference to their points of view in there.

**Ms Campbell:** We'll provide linkages between the sections so there will be references to that.

**Mr David Johnson:** I don't know exactly how you do this because, again, this is my first time through this process.

**Ms Campbell:** We can link the sections.

**Mr David Johnson:** But I would just consider that to be an important part, whether it's contained separately by themselves, but I think at the very least there should be a strong linkage.

**Mrs Caplan:** One of the points I'd like to make is that in looking down the list on "Sectoral Issues," I think that not all of the sectors in the economy are on the list and not everyone was here making representation and presentation. I like the approach of looking for the commonality in the representation and, certainly, again, it's not just the restaurant association but everyone that I've been talking to agrees with the importance of creating a climate for jobs and investment in Ontario. That's in the interests of every sector and the recognition is that it's the private sector, and particularly small business, that is going to create jobs, if we give them the climate in which to do that. I have some concerns about us going sector by sector because I think there are some broad general themes that apply to all sectors in society and certainly in our economy.

The other concern I have is that if we list sectors, those that were here, there might be some misinterpretation that in fact the committee is suggesting that only these sectors have an interest or that in fact these have some priority interest. People are sick and tired of the notion of special interests and I think we have to be very careful when we send out the message that it's a broad policy thrust to create a climate where jobs can flourish in the private sector, that this must be a priority and that it's not the role of this committee to identify which are the priority sectors in which that will happen but that it should be more of a fiscal and economic policy thrust of government and of the Legislature to support initiatives that will allow the private sector to do what they do best, which is generate wealth, create jobs, if they are in an environment which is not anti-private sector.

**Mr Carr:** What I would propose, and I think there is a consensus—I'm seeing Kimble nod—following up on what Elinor said, I would like to see a new heading.

We've got "Economic and Fiscal Policies." I'd like to have "Job Creation" in there, in which we could talk about all these issues. The sectoral ones would come into play there.

But I disagree a little bit with Elinor. I'd also like to keep "Sectoral Issues," and I don't think people will think it's any more important. It's just that there were particular sectoral issues that were raised before this committee and I think we can incorporate them. I think we can come to agreement that after "Economic and Fiscal Policies" there should be a section itself called "Job Creation," and then we can get into that, and then I would continue on with the way it is. But I still think I wouldn't like to take out the sectoral issues. I think they can be dealt with because some of the issues weren't related to job creation. So let's put in "Job Creation" as a whole new heading in the table of contents.

**The Chair:** Is everyone in agreement with having a heading, "Job Creation"?

**Mr Jim Wiseman (Durham West):** I want to talk about that.

**Mr Carr:** We might just agree.

**The Chair:** Sure. We'll just continue along then.

**Mr Kwinter:** I'd like to recommend that we discuss specific issues as they reflect on what we're talking about and we make the connection for a sectoral group but that we not list them per se, for the reasons that my colleague Ms Caplan stated. I'll give you an example. If you look at the list right now, there are three areas that are not specifically mentioned that are fairly significant in Ontario. One of them is tourism. Even though we talk about foodservice, there are lots of tourism activities that have nothing to do with foodservice, so they're not mentioned. They would be very upset if they felt that tourism was not a factor to be considered in the economy of Ontario.

**Mr O'Connor:** Agricultural issues.

**Mr Kwinter:** Agriculture is listed but we don't have communication. We have telecommunications but we don't have communication—newspapers, books, things of that kind. We don't have the aerospace industry.

I think you leave yourself open to a lot of criticism if you do that. I think that in no way does it detract from those people who made presentations, and they can be referred to and they can be linked as we go through it. But I think if we start singling out, we immediately leave ourselves wide open to saying, "Well, you obviously did not consider our particular industry and we are a significant player." Whether they are or not is subject to interpretation, but everybody thinks that they are important, and they are. I think it's important that we don't try to arbitrarily decide which groups have an influence and which don't.

**Mrs Haslam:** I don't mind the job creation coming as another heading and I do agree that under general economics those items can be talked about, but in the "Sectoral Issues" there were specific things that were raised, so I see a benefit in keeping the sectoral issues there. I would like to take a look at the foreign and domestic loans problem that was raised about foreign

banks and the problems of foreign ownership on the debts. Whether that's a sectoral issue or not, I thought that would be best handled in this area. But I do see a benefit, because there were specific issues around sectoral. Not all sectors came in to see us and, as my colleague has mentioned, a caveat usually is put in saying: "These were some of the issues that came up because these people came before the committee. There will be other issues in other areas, in other sectoral entities." Perhaps we can do that in a way that says while they didn't appear before us, there were some other issues that we could mention.

But I like the idea of keeping the sectoral issues in a sectoral basis, because there are specific issues that each one of them brought—as long as we don't repeat them. If one of their sectoral issues was jobs and we've already tackled jobs or if one of their issues was GST harmonization and we've already tackled that under taxation or economics, then let's leave it. But there were specific things that each sector had and that's where this should be indicated, in this area.

**Mr Wiseman:** I'd like to follow up on what my colleague has just been talking about in terms of the banks. I think we need a section in here about the Bank of Canada, the role it plays in the economy, the fact that on at least one occasion we attempted to get the governor of the Bank of Canada to come before this committee, about four years ago. He refused.

We need to discuss the interest rate policy. When I talk to businesses in my riding one of the things they say to me is, "Don't increase taxes," and some of the other issues around payroll, but they say that the most devastating thing to them is when the interest rates go up and that this is the biggest job killer that exists in terms of the single most important factor in terms of inventory, costs of inventory, the amount of money that they have available for job creation, for expansion, the fact that many of the businesses have indicated that they cannot get loans from the banks. All we heard from the Canadian Bankers Association was about all of the nice, wonderful seminars that they're holding and little of the actions that they need to take.

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I think we need to have a discussion in this document about the Bank of Canada, the fact that it doesn't live up to the Bank Act and that the province should be looking to pushing the federal government to force the Bank of Canada to live up to its obligations under the Bank of Canada Act and the whole issue around when and why interest rates should go up.

For example, just to take a look at the 1981 interest rates, I can remember that the interest rates were 22% or 23%. The accumulated national debt in 1981, if memory serves me correctly, was about \$125 billion, and the highest percentage of that was being borrowed within the boundaries of Canada. Yet here we have the Bank of Canada pushing the interest rates up to curb inflation, which had huge consequences, and then they did it again in 1987 and 1988, and it looks like they're going to do it again.

So I think we need to have some comments in terms of

job creation. It's a deliberate policy on the part of the Bank of Canada to put people out of work to curb inflation. I think we need to condemn that and to say that the federal government needs to stop allowing that to happen, because if you're going to have real job creation, then you have to turn around and say that the non-accelerating inflation rate of unemployment is obscene, that you will have a non-elected body with the kind of power available to it to keep and deliberately put people out of work to keep an unemployment rate in this country of 9%.

I think something has to come in this document condemning that and saying that it makes our job to forecast what the job creation is, what the revenues are going to be, what the rate of welfare recipients is going to be, very difficult if you've got a group of people or a single person sitting in the Bank of Canada, non-elected, turning around and saying, "Well, today we're going to raise the interest rates because" either "the Federal Reserve in the United States did" or "unemployment has dropped in this country, and now we're going to jack it up."

How counterproductive can you get? We have an infrastructure program trying to put thousands of people back to work and the Bank of Canada going: "Oh, my goodness gracious, look at that, the unemployment rate is going down. That's going to be inflationary. Let's put them out of work again. We'll raise the interest rates." Come on. I think there has to be a section in this condemning the Bank of Canada and condemning the actions of the federal government allowing this to happen.

**Mr Carr:** On the same point, I would like a section on it, obviously not with what Mr Wiseman is saying, the reasons being not the least of which he's wrong. Having said that, I think we can have a section in there. I wouldn't like to see it a main section. I think it can fall under "Economic and Fiscal Policies." We'll disagree with what it is, because as I sat there and listened to him it was the same thing the federal Liberals said prior to the election, and when they got in they did the same thing.

So these simplistic answers, I sit here and say—and I won't be confrontational, but what I told David about it—he obviously is wrong, in my opinion. But I think it can be put in as a section under "Economic and Fiscal Policies," and what we decide to do with it obviously will not be Mr Wiseman's interpretation, because we will not come to agreement on that. But I think it can be in there.

I wouldn't suggest that it's a main issue. I think it can fall under "Economic and Fiscal Policies," and then what we can probably come up with—and they in their report may decide to condemn them, also notwithstanding the fact that it's the federal government that controls it—what I think we can do when we get to that section is just say there is some discussion on the differing opinions. But we will not, obviously, come to some agreement, other than the fact that it should be in there, because quite frankly what Mr Wiseman is saying is totally and absolutely wrong.

**Mr Wiseman:** I just want to comment on that.

**Mr Carr:** You got it in there. Don't press it or I won't agree to even have it in there.



**Mr Wiseman:** If I am absolutely and totally wrong, then so is David Crane, who is the financial editor of the Toronto Star, and so are a whole number of economics professors who have been writing on this for some time, and so is Fortune magazine, which has been writing on this and clearly indicating that the reason the Federal Reserve in the United States is increasing its interest rate is because of decreased unemployment. So they want to increase the unemployment and that's what our bank is following.

There isn't anything wrong in that statement. It is accurate because that is the policy and it's well stated both by Paul Martin and again reiterated by Thiessen just as recently as last week when he made a speech in Edmonton. So if I'm wrong then, hey, I've got some pretty good sources behind me saying that I'm wrong.

**Mr Carr:** I'm just glad you're here saying it and not teaching our kids in high school these notions. I'd rather have you here expounding than I would in the classroom, quite frankly.

**Mrs Caplan:** Can we have a third option?

**Mr Paul Wessinger (Simcoe Centre):** I think Mr Wiseman has raised a good point but I think it raises the whole concept that we need some economic context with respect to our report relating to the whole aspect of the role the interest rates play with respect to budgetary forecasts etc, the impact they have on the economy. Certainly I would agree with him with respect to the consequences and I think most economists would agree. I think it's quite accurate what Mr Wiseman indicated, the consequences of the high interest rate policy we've had in this country.

But we also have to look at some other contexts. I think it's important that we look at some of the political contexts, the uncertainty that's there because of the Quebec referendum situation. All this has to be put in as background also. I think we need some overall, general macroeconomics context in which to put this, and then we can deal, of course, with the question of recommendations, and I think Mr Wiseman's really dealing with the question of recommendations. I just want to emphasize the need to have the overall macroeconomics context and the impact that has on provincial budgetary situations and the economy locally.

**The Chair:** Does that conclude comments with respect to "Sectoral Issues"? I'm sorry. I'm moving myself ahead a little too quickly. We've just completed "Economic and Fiscal Policies."

**Mr Sutherland:** Can I come back to "Economic and Fiscal Policies"?

**The Chair:** By all means.

**Mr Sutherland:** Maybe I'm wrong to have to go through and repeat all this. I think the consensus I got was that under "Job Creation" we wanted to talk more about the general issues rather than the specifics, and then when we get to "Sectoral Issues," talk about the specific issues but with some degree of connection. That was my sense of the direction we're giving on that.

Coming back to "Economic and Fiscal Policies," research has asked three specific questions and I'd like

to put some comments out of that.

My sense of how we should deal with the issue of the auditor is this: Certainly we should note what the auditor's concerns were. I think we should note the Ministry of Finance's response to them and what the Minister of Finance has indicated it is willing to undertake. I also think there should be some discussion, as the auditor noted, about the issue that the budget is not a set of books—he doesn't audit that—and also some reference to the changes in accounting and the changes that did occur in the accounting process.

May I say, though, that if we want to put this issue into perspective, I think if we have a paragraph to reflect both the auditor's comments and the Ministry of Finance's comments, that would be appropriate for dealing with the auditor's comments and registering them as concerns and then the response and taking it from there.

**The Chair:** The Chair was a little confused because we kind of overlap these topics from time to time and I know we were speaking somewhat about sectoral issues. However, Ms Campbell did want to make a comment, I think, or did you want to wait till we concluded?

**Ms Campbell:** I'll wait.

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**Mr Phillips:** I think the Provincial Auditor's comments are absolutely at the centre of all of this. I mean, he has said, and I'm quoting him here, "The financial statements as they're currently presented do not reflect financial reality"—and this is the term he used, "do not reflect financial reality"—"under any accounting rules."

He's not talking about an argument between accountants. He is saying that the way the budget is being presented to the public does not reflect financial reality. He couldn't be clearer on this. In fact he goes on to say that the financial markets, which have access to analysts and to people who can spend a lot of time in depth going over the numbers, are able to see through the budget and are able to put their own interpretation on it and they make money on it, because they understand the real numbers. But he says that the Legislature—us, members—and the public are not getting the numbers that reflect financial reality under any accounting rules.

He's our independent Provincial Auditor, the one party, the one group that we rely on to make sure; the public relies on this individual and his office to ensure that we get a true financial picture in the province. And he's saying, as clearly as he could say it, we're not, and it is out by a substantial margin.

The government just announced it's going to spend \$4.4 billion on capital, saying that this is its capital plan. In the budget, it is the government's intention to show not \$4.4 billion of spending but \$2.2 billion of spending. The auditor could not have been clearer. We are being misled by \$2 billion on capital expenditures alone, and he is saying that there is no doubt about that. Zero doubt.

Just to go on, because I think it's fundamental for us, Last year, as we all know, the government sold all the GO trains: went to Bermuda, flew over to Bermuda, had a deal made, sold the trains for \$430 million and five minutes later brought them back in Bermuda from the

same company and showed that \$430 million as revenue. The auditor says that's wrong, that you can't do that.

All of these government buildings, with the exception of the Legislature—the Macdonald Block, the Michael Starr building in Oshawa, the Frost building—have been “sold” and then the revenue taken in as an asset sale. We’ve sold the Frost building. We’re showing that as revenue; \$400 million, I think, of that money came in.

**Mrs Caplan:** Who’d they sell it to?

**Mr Phillips:** Sold, not to a company, but to a crown agency set up by the government. The government just set up a paper company, sold these buildings to themselves, showed it as revenue, and the auditor says it’s incorrect. And auditors are normally very cautious with their wording. He doesn’t say this was an interpretation of accounting rules. He says, in his report, that was incorrect.

So we’ve got these three things going on at least. It looks to me like \$2.2 billion of incorrect reporting of expenditures on capital, and the auditor—I guarantee you he has already said it; he’s clear—will blow the whistle on this when he finally gets his hands on it. The problem is, he won’t get his hands on it until after the election.

This year we have sold, I gather, government ferries, government airplanes, I think again went over to Bermuda and sold them. I think the same company, the Bermuda company, whoever this Bermuda company is, has bought our planes and our ferries and then they’re instantly sold back to us. The government buildings continue to be sold. I don’t think yet they’ve sold any jails, although that’s on the books. We are going to sell jails to ourselves. The Ontario government’s going to sell the London jail to itself and show that as revenue. A lot of the OPP offices around the province have been sold, just a paper transfer, sold and then immediately leased back, and as I say, the ferries and the planes.

We are playing games with the books. Now, I know the rationale for it. The government clearly wants to show a deficit going down. The books you put out say, “Well, the deficit was \$12.5 billion, it’s going down now to \$10.6 billion, and this year it’ll be \$8.3 billion.” The auditor says it’s not \$8.3 billion. The auditor said that under any accounting rules this year’s deficit is not \$8.3 billion; it is at least \$2.4 billion higher than that.

Why is this important? All of us know that if we are going to fix a problem, we have to understand the magnitude of the problem. I don’t use words like this without some care, but the books, according to the auditor, do not reflect financial reality.

**Mr Sutherland:** The books do. The public accounts are the books.

**Mr Phillips:** See, for those of you listening or watching, the government says, “The books do.” The books are what’s called the public accounts.

**Mr Sutherland:** Yes.

**Mr Phillips:** The problem is, the public accounts do not come out until 18 months after the budget is presented.

**Mr Sutherland:** That’s right.

**Mr Phillips:** So the government members are saying, “Well, you’ll find out what the books say 18 months after the budget is presented.”

**Mr Wiseman:** It’s in the budget too.

**Mrs Haslam:** It’s in the budget.

**Mr Phillips:** I say that if there’s one thing this committee should be recommending strongly to the government, all of us should be recommending strongly—we engage a Provincial Auditor; the public have confidence in the Provincial Auditor; the public have a right to know what the real numbers are—we should be, almost as our first recommendation, saying: “We support the Provincial Auditor. We think it’s fundamental that the budget be prepared using the recommendations of the Provincial Auditor.”

We’ve had the Provincial Auditor saying this not for just a few months. He’s been urging the government to do this for two years now. The problem we’re going to run into, because we are now, as we all know, mere months if not weeks away from an election, is we are going to have a budget presented that will be so transparently wrong that—

*Interjection.*

**Mr Phillips:** Well, the government members may shake their heads—

**Mr Wessenger:** It’s consistent with all the previous budgets.

**Mr Phillips:** —but the auditor could not have been clearer. It does not reflect financial reality under any accounting rules. So I would hope our first recommendation would be to take the recommendations of the Provincial Auditor and make absolutely certain that the preparation of the budget is done in accordance with his recommendations.

The reason I feel so strongly about it is that this is dated February 16, 1995. The capital investment budget for 1995-96 is \$4.4 billion. That’s what the government says it’s going to spend on capital. How much is going to be reported in the budget? Some \$2.2 billion. There is \$2.2 billion that will not be shown as part of the deficit.

The auditor, as I say, has been extremely clear on that. As a matter of fact, when we recall, many of the outside groups that came to present to us urged us to make sure that the way we present the numbers is a way that they can have some confidence in. So I would hope we could take that into account and that would be, as I say, a major part of what we’re proposing here today.

**The Chair:** We’ve come to the point in time when we’re going to recess for lunch. We’ll resume with this deliberation at 2 pm.

*The committee recessed from 1200 to 1403.*

**The Chair:** We can continue with our report writing. It has been indicated to me that the research officer would like some more direction with respect to “Economic and Fiscal Policies” and therefore I’m going to turn—

**Mr David Johnson:** Mr Chairman, just on a point of order: I think we were on a particular topic. There was a speaking list and I would think—



**The Chair:** You're absolutely right, Mr Johnson.

**Mr David Johnson:** —the normal course of action would be to complete that item and then deal with other matters.

**The Chair:** You might like to think that, but I think the research officer who's going to write this report needs some information.

**Mr David Johnson:** So what are you proposing to do? Go into other items and then come back to the speakers' list on this item?

**The Chair:** In order to speed things up at this point in time, let's hear from you, Mr Johnson.

**Mr David Johnson:** Thank you. Good. All right. There's a challenge then. I will do my best.

But the research officer—is that your official title, Elaine, research officer?

**Mrs Haslam:** Friend of all.

**Mr David Johnson:** Friend of all of us, for sure, and doing an excellent job. She has indicated that she would like specific advice, and the question that is before us through this particular aspect of the debate is, number one, would the members prefer that the auditor's concerns precede those of other witnesses? That's the first question she's asked, and my response to that would be yes.

The second question: Would the members like the table prepared and presented by the auditor to be included in the report? I assume, Elaine, that you're referring to this table, and my answer to that would be yes. So that's pretty specific.

The third question I'm not sure I fully understand: How much detail would the members like included in the auditor's comments in his 1993 report, subsequent responses from the Minister of Finance, last year's report by this committee and changes with accrual accounting and consolidation?

I believe the government's response to that is one itty-bitty paragraph, as small as possible. I'm exaggerating a little bit, but you did say one paragraph. One paragraph was suggested, and my response to that would be that that would be doing an injustice to the auditor's concerns. I think in the discussion this morning it was established that the auditor took the unprecedented steps of asking to appear before this committee and appearing before this committee to express considerable concerns as to how the budget is presented and, in particular, how the deficit situation is presented to the people of Ontario and to the members of the Legislature. His own words were simply to tell it like it is, and I think, in view of the status and position of the auditor, it certainly merits more than one paragraph of explanation.

We've also heard that for the 1992-93 public accounts the auditor refused to give an unqualified opinion. That's quite a serious situation, again unprecedented in the history of—

**Mr O'Connor:** He was new.

**Mr David Johnson:** Oh. I see. Well, that was unprecedented in the province of Ontario. In the 1993-94 public accounts he did state his opinion, but it was after the

deficit had been restated to I believe \$10.8 billion, whereas the budget had stated the deficit at \$9.3 billion is my recollection of those numbers. So I suppose his point was accepted at that time.

Now he is simply asking that the budget be stated in consistent terms, such that many of the items that were listed this morning at the end of this morning's session—transfer of real estate, for example, and purportedly sold but in fact simply transferred from one wing of the government to another wing of the government when no sale is made cannot result in cash to the corporation.

Another aspect that he demonstrated particular concern about was loans to various institutions, education institutions and hospitals. These are reported as loans where in fact the auditor made it perfectly clear that, in his opinion, they were grants and they would not be repaid, other than through some circuitous transferral of moneys from one government pocket to another, but indeed the hospitals, for example, would not be raising money independently and paying "a loan" back to the government.

So he's made those points. He's indicated that he considers it very serious. Some of the deputants who appeared before us indicated that the squabbles, if I can use that word, between the auditor and the Minister of Finance are not helping the image of the province of Ontario and that this matter should be resolved, laid to rest, and not become a sore point for the province of Ontario.

So I think in that light, in light of the fact that it has been raised, in light of the fact that the auditor has specifically appeared, in light of the fact that the auditor has refused to give an unqualified opinion one particular year and continues to express concern with regard to the reporting of the deficit in the budget statement, yes, his concerns should be up front. Yes, his reckoning, which I have in my hand for the 1993-94 year and the 1994-95 year, would show a different real deficit than the government is reporting by in excess of \$2 billion, for example, for 1994-95. These should be in the report and there should be an explanation of the concerns considerably in excess of one paragraph. That would be my response, Mr Chair, to those three questions.

1410

**Mr Kwinter:** I'd like to speak to this same situation. Without trying to appear preachy, I don't know of another situation that is as serious as this, and I'm not trying to be partisan or anything else. I can tell you that we in our caucus are the only members who are in this committee at the present time who were in the government prior to this government's ascension to power and I can tell you that if we as a government tried to do this, those members who are now the government would actually boycott this committee. If we were in the House, they would shut the House down and we would not hear the end of it until someone came to their senses.

I can tell you, as a former Minister of Consumer and Commercial Relations, that if this was done by a private sector company, it would be charged with breach of false advertising. As a former Minister of Financial Institutions, I can tell you that the Ontario Securities Commission, if this were a stock company—which it is; the

shareholders are the citizens of Ontario—would revoke its ability to trade, and the board of directors of the company would impeach the officers, and for a very simple reason. What they are saying is: "We're not doing anything wrong. We issue our budget. All of the figures are in the budget; they're all there. The mere fact that we don't state them the way an independent person who was put in place to make sure that those figures are stated properly is not our problem, and it's not the auditor's problem because he has no jurisdiction over our budget. When we get to public accounts, we state them properly."

That is a copout. It's a copout by the government side to say that's okay. Let me tell you why. We have a perfect case in point. We have the Treasurer of the province coming before this committee and issuing documents, and I have a copy, balanced operating budget in 1998, and he shows that for 1995-96, the operating budget is going to be \$4.3 billion in deficit and the capital budget is going to be \$2.2 billion. This is a figure that he has given to this committee and this committee is supposed to be dealing with facts and would expect that the person in the province who has responsibility for looking after the finances of the province would give accurate figures to the committee.

In a news release on February 16, and I have it here, it say, "Ontario capital investment plans for 1995-96 to support over 100,000 jobs." What is the amount? It's \$4.4 billion. So the Ministry of Finance is issuing a statement that says the capital expenditures in 1995-96 are going to be \$4.4 billion. Less than two weeks ago, the Treasurer appeared before this committee and said, "No, it's going to be \$2.2 billion." You say: "Well, it doesn't matter. When we finally get to public accounts, it will all sort itself out."

Let me tell you the problem. The budget isn't just a political document. It is that, but it isn't just that. We don't have a lockup when the figures come to public accounts but we do have a lockup when the budget comes out. We don't have the media and everybody else virtually in the country waiting in anticipation to see what the budget is going to be—I mean, we do have, but we don't have them waiting to see what is going to happen when they get to public accounts. So the budget document is more than just: "Well, it's our estimate and it's something that doesn't really make any difference. By the time we get through the fiscal period, we will report the actual results at public accounts."

I think it's disgraceful, and for those of you who were here at the meeting when I questioned an official of the Ministry of Finance, I said to him, "You have projected"—whatever the amount was; it doesn't really make any difference—"what the deficit is going to be in the budget. Tell me: When you get to public accounts at the end of the fiscal period, if all of your projections are right and if all of your assumptions are right, is that the figure you're going to be showing as your deficit?" And he said, "No." I said, "Is it true, ballpark, because I don't know what the adjustments are going to have to be, that your deficit is going to be somewhere around \$2 billion to \$2.5 billion higher than you're showing it in the budget?" And he said, "Yes."

What I don't understand is, if on February 6 he can say, "Our figures are not going to be what we're telling you," and he can say now that come 15 months down the road, yes, we will be showing a higher number, why he doesn't show that number now. This isn't a matter, as I said, of political partisanship. It is a matter of fiscal responsibility.

We have an officer of the Legislature, the Ontario auditor, whose mandate is to advise the government, to be the watchdog, if I may, of the citizens of Ontario, who has taken the unprecedented step of coming to this committee and saying: "It isn't a matter of opinion; it's a matter of fact. You are not keeping the books according to accepted standards." He has called on the province to do it and he's called on the province in its budget to show the figures as they are: not as some politician would like them to be, but as they are. There isn't anyone, other than the politicians, who is questioning it.

We've had deputation after deputation come forward and say: "Stop keeping two sets of books. Put forward the numbers, whatever they are, because everybody discounts them anyway." The people in the know know what the real number is because, as the members of the government side are very anxious to say, all the numbers are there. The problem is that to those people who are watching, the citizens of Ontario who don't have the information or maybe the interest or the ability to ferret out all the numbers. All they know is that on the day the budget comes down, when everybody is focused on that particular issue, they look at the figures and they say, "What is the deficit?" and the government, whether it's \$8.6 billion or \$6.8 billion or whatever it is, gives out the number and the press heralds this number. This is the number, the deficit. This is what the Treasurer stands up and says and everybody is watching it and it's film clips all over the place showing this is the number, when everybody knows it isn't the number. It isn't as if he says, "Look, I miscalculated." They know going in that the number he is putting forward is not the real number. I say to you that this committee would be derelict in its duty if it doesn't recognize that and comment on it.

The other thing, of course, is that no matter what happens, it's going to be in the report. If the decision of the majority of this committee is that it shouldn't be in the report, and that will be a crass political decision, then I can assure you, without even conferring with my colleagues in the third party, in the report that will be appended by the other two caucuses, this will be in there. What you really do is you bring ridicule to the committee, you bring ridicule to the government—

**Mr O'Connor:** You do. There aren't two sets of books.

**Mr Kwinter:** The government keeps saying there aren't two sets of books.

**Mr Donald Abel (Wentworth North):** No, there aren't.

**Mr Kwinter:** But I'm telling you, a deficit that is reported as one figure and then when it goes to public accounts turns out to be \$2 billion higher, when everybody acknowledges going in that that isn't the number, is in fact two sets of books. The auditor didn't come here



because he has nothing else to do or he has an axe to grind with any partisan interest. He is saying it doesn't make any sense for the government to put out an interpretation. Let me even concede that you say if there aren't two sets of books, there are two sets of interpretations. He is saying: "Tell it as it is. If you're going to incur a deficit, let's know what the real number is so that at least when we are trying to resolve the problem, we are dealing with the same numbers."

1420

I would like to hear the rationale—and I can understand that some of the members of the government side are not happy, but I'd like somebody to defend right now the fact that this document was presented to us less than two weeks ago and it shows the capital deficit for the year at \$2.2 billion, a document that was put out by the Ministry of Finance that says we are going to be spending \$4.4 billion. Now, if you're spending \$2.2 billion in this, and less than two weeks later you're spending \$4.4 billion, there is a shortfall of \$2.2 billion. How can you discount it? How can you say, "Well, it doesn't matter. There aren't two sets of books, there aren't two sets of numbers. It doesn't matter"? These are put out by the same people.

It isn't as if somebody says, "You know what? We don't agree with the way you're doing it. We think it's this and you think it's that," so you have a dispute and you say, "Well, you can do it your way, we'll do it my way." The same people are putting out these numbers—\$2.2 billion and \$4.4 billion—all within a matter, really, of about 10 days. I'd love to hear someone defend that. Tell me how that happened and tell me how you justify it.

**Mr Sutherland:** Well, I must tell you, I find this all interesting because I think we've had now about three speeches telling us about what the recommendations are going to be. The discussion right now is to be on what advice we're giving to the researcher. No one said that we weren't going to address in the body of the report the concerns of the auditor. My comments were that I thought it should reflect the comments made by the auditor and the Ministry of Finance's response.

However, since we've gotten into this issue, let's refer back to a few other things, and the question about books. Both Mr Kwinter and Mr Phillips used the terminology "the books" when referring to the budget. The auditor himself, when he was here, clearly said the budget is not the books, the public accounts are the books. So let's be very clear. There is only one set of books: the public accounts.

The auditor, when he first came in, asked that the accounting method for keeping the public accounts be changed from a modified cash basis to this accrual basis. Okay? The auditor recognized the difficulty in changing over from one accounting system to the other, and the auditor, in his presentation here, certainly acknowledged the work that was done by the Ministry of Finance to move to an accrual basis and to put the public accounts on that basis. The auditor would like the budget presented that way.

As you may recall, when the auditor was here and I

questioned him, I noted to the auditor that at least six other provinces do not present their budget in the same accounting fashion as their public accounts. That includes provincial Liberal premiers, that includes provincial Conservative premiers, and includes Ralph Klein in that group as well. So to say that somehow this is unprecedented or to make this issue the only issue that this committee has heard about I think is really overstating it.

I should also remind folks that the Minister of Finance did clearly state when he was here for his presentation that he will, in the budget, present the overall financial information as how it will be in the budget and how it will look as a public accounts statement. So the Minister of Finance has undertaken that we are moving towards the direction of what the auditor would ideally like. I think if we look at how the budget information has been presented over the last few years, we see more and more information being presented all the time. It isn't as if we're not going to do anything or not moving in any way towards that direction. Okay?

I think we have to remember too that in terms of the way the Minister of Finance has presented it, the budget has been presented in a similar way for many, many years in this province. If we want to go back and look at each budget year by year and go back and analyse what was actually included in the numbers and what wasn't in the numbers, we can go through that very, very lengthy debate. We could also go back and put the accrual basis to those accountings and to the alleged years when we had a balanced budget. If you did it under an accrual basis, there wouldn't have been a balanced budget in the year that's often cited and claimed, I believe it's 1988-89 that we hear Mr Phillips and others make that.

The point in terms of what advice we're giving to the researcher is this: We're asking the researcher to summarize the auditor's comments, summarize the Minister of Finance's comments in terms of what the issues were. However, in the overall scope of the hearings, of what we heard from many people, there are a lot of other issues that dominated the overall discussion rather than just what the auditor's comments were. So the auditor's comments, rightly so, should be noted in the body of the report.

In terms of what we're going to do with recommendations, as I've stated earlier this morning, at this stage of the game we're not talking about what the recommendations should be, we're trying to give advice to the researcher.

**The Chair:** Thank you very much, Mr Sutherland. I'd just like to remind all the committee members that we do have a purpose here today, and that is to advise the research officer with respect to how we want to draft this report, and yes indeed, we've been doing some of that. However, I must admit the Chair was somewhat naïve with respect to why we needed this to be televised today. It's become clear to me as the day has progressed why this was necessary.

However, let me say that we have a few speakers left to go and I would just suggest that maybe we keep our comments short and succinct at this point so that we can get on with the most important aspect of this day's work,

and that is writing this report. Next is Mr Carr.

**Mr Carr:** Yes, thank you. I'll be very brief. Monte and Gerry and David did a good job in explaining the reasons. The only comment I want to make is that in 1993, in our minority report dissenting opinion, we talked about this clear set of books. We called it the deficit du jour, and here Kimble's saying that we're moving towards it.

Two years ago in our report we said this is what we'd like to see and we're seeing no action. That's why you're seeing a little bit of anger. In the first line there we say, "The transparency of the government's book was again an issue before the committee." That was two years ago. I remember us raising it—Norm Sterling was our critic way back—and that's the problem we face.

I'm not going to get into the details that have already been talked about. The reason the anger and the frustration are there is because we've been talking about this for two years. We called it the deficit du jour, and what we said in our minority report, in our dissenting opinion two years ago was that what we need to do with the books is have a comprehensible, understandable, accessible and realistic description of the assets and liabilities. So I guess that's the frustrating part for us in the opposition for two years.

There were about 15 other recommendations that we put in. I can understand where you wouldn't necessarily agree with some of them, including freezing taxes going back two years ago which, as I look back at the recommendations, you're now doing some of the things we called for. To say, "I told you so," doesn't do much good. But when you see the anger on this side it's because we've been raising this issue for at least two years in the House with the Premier, to the Minister of Finance. That's where the anger is, and now to say that you're moving towards it—we've been moving for two years.

The other folks have talked a little bit about the reasons why it should be done. I just want to let you know that the reason we're so concerned about this is that this has been raised in our minority reports for two years now and nothing has happened. Now we have the auditor involved, and I'm glad to see that he has come forward to do that. I think he did it reluctantly. It was a big step for him.

If the members on the government side—and I appreciate what Kimble's saying, that they want to have it in there. I think we need to have a little bit more than what I think you agreed to, which was one paragraph. I think we should have a description of what we would like to see. I think we should talk about some of the problems that have been put together by the auditor because, I want to tell you, the public out there is frustrated with these games that are being played back and forth on this issue.

Let's be clear about what it is. On page 16 of our report we entitled it "A Clear Set of Books." So for two years now we've been talking about this. We quoted one of the people who came before us and this is what the quote of that person was. One witness put it this way, "If you think information is expensive, check the price of ignorance." Two years ago witnesses came before us and

said, "Can we please have a clear set of books?" Two years later we are still sitting here, with the auditor involved now saying it, with the concern out there of the people we heard come before this committee. Kimble says they're there. The auditor is saying, "This is how we'd like to see it done." It's not that complicated, folks.

**1430**

What has been talked about here today and the reason I'm so angry is similar to what other folks are, because the reason it is being done is because the Minister of Finance is trying to low-ball the deficit for political reasons. Everybody who knows anything about it knows. As we say, it's the transparency of the government's books that's again an issue before the committee. You aren't fooling anyone.

As one small thing we do as a committee, let's reiterate to the Minister of Finance that it's about time, whatever he agrees with, that we come to some conclusion so that the auditor and the Minister of Finance are not before this committee a year from now—they won't be, because this government's mandate will be up—so that we aren't fighting for two years over something as simple and as uncomplicated as how the books are going to be kept. It's little wonder we can't agree on what should be done with taxes and government spending; we can't even agree on how we're keeping the books and have arguments for as long as it took this morning. That's the frustration.

Two years ago, we told you simply, "Here's what needs to be done," 15 recommendations. What we said was, "Let's have an independent party to prepare an analysis of the cost and benefits of converting to an accrual accounting to provide an opinion as to whether the conversion would result in a better set of books." That's what we did.

**Mr Sutherland:** That's public accounts, not the budget.

**Mr Carr:** We didn't even say, "Listen to us before the auditor gets involved." We said, "Let's have an independent third party who would take a look at it." The independent third party who had to come in is the auditor who is saying, "You are not doing it correctly."

I'm not going to go on other than the fact that I think we need more than a paragraph on it. I want to tell you, the people are seeing through it. It's not right and it should be changed.

**Mr Phillips:** Just to follow up on it, because it is important—Mr Carr said some of the things I was going to say—it was in May 1992, almost three full years ago, that we first raised this issue with the Provincial Auditor. We sent a letter to the Provincial Auditor saying, "We have concerns about the way this budget is presented." Actually, it was the day of the budget, I think, in 1992. And sure enough, for the first time in the history of the province, the Provincial Auditor refused to give an unqualified opinion on the books. In other words, it was the first time in the history of the province that the auditor did not give an unqualified opinion on the books. He said, "This is not the right way of keeping the books."

Then again in the spring of 1993, this same committee,



some different members but many the same, made a recommendation in our report to accommodate the Provincial Auditor. Nothing happened. What happened was that we had a budget presented in May 1993 that showed a deficit of \$9.2 billion. Just as we predicted, when the auditor finally got the public accounts—by the way, the public accounts come out 18 months after the budget's presented.

When Mr Sutherland says, "You get the books, the public accounts," everybody should recognize that when this budget is presented in April 1995, the real books, as you call them, the public does not get for 18 months. So the real numbers as you call them are not given to the public until 18 months after the budget is presented. As a matter of fact, it was only in November of last year that we got the real numbers. That's what the auditor calls them—this is his document—"budget deficit" and then "real deficit."

We had this debate last year for the third straight year and we said as strongly as we could—I think both ourselves and the Conservatives attempted to get a much stronger statement in our report, but the statement simply said, "The province's financial statement should be presented in a clear and complete manner and as quickly as possible." But the fact is that we are going to get a budget presented to us, as I say, in April and it won't reflect the real numbers. The government members are telling us the real numbers are in the public accounts, which are only presented to the public 18 months after the budget is presented.

Last year we went through all of this exercise, if you remember, with us feeling increasingly more strongly about it, and sure enough, we got a budget that was presented. This is the auditor coming to us just two weeks ago saying: "The government is showing an \$8.5-billion deficit. I am telling you, public, that the real deficit is \$10.5 billion." He's saying that, but he says we will not get the official public accounts until October of this year, well after the election, a year and a half after the budget was presented.

Without doubt, unless this committee puts in a very strong recommendation that the budget be prepared and presented using the auditor's recommendations, not that it be hidden in fine print somewhere in the budget where you can get at it with a fine-tooth comb, but exactly as the auditor is requesting, we're going to have another one of these fake deficits where the auditor would say, "You've got a deficit per budget but the real deficit is something quite different." As a matter of fact, that's the language the auditor used, if you remember. He said that the deficit number the government's using in its budget is not the real deficit.

If people are wondering why, as Mr Carr said, we're upset, this is now, I guess, the fourth year almost. We started it in 1992, we did it again in 1993, we did it again in 1994 and here we are in 1995 attempting to get it done. I think we're going to have to be very specific in our recommendations. We're looking to give direction to research, and I guess I'm arguing as strenuously as I can that our direction should be that we adopt the Provincial Auditor's recommendation.

**Mrs Caplan:** I'm not going to belabour the point, but I would add a couple of things that I don't think have been touched on. Every presenter who came before this committee, who commented on what the Provincial Auditor had to recommend to the committee and what the Provincial Auditor requested, supported the Provincial Auditor.

**Mrs Haslam:** No.

**Mr Wiseman:** That's not accurate.

**Mrs Caplan:** The only people who have not supported the Provincial Auditor are the Rae government, the NDP and Treasurer Laughren.

What we have seen before this committee is the Provincial Auditor, for the first time that I can remember in history, and I don't think a Provincial Auditor has ever made an appearance before the finance committee pre-budget, suggest to the government how the numbers in that budget should be presented. I don't think it's ever happened.

I think the reason that he did that is because he feels so strongly that there is confusion between the budget and the public accounts, which are presented 18 months later, he feels that there is confusion among the public as to what the real state of affairs of the province's finances are and he feels strongly, as a watchdog on behalf of the public, that the government should change its practice in the way that it puts forward the provincial budget.

He has made that recommendation. He has been supported certainly by everyone I've spoken to. I have not had a conversation, I can tell you, with anyone who says the government should ignore the advice of the Provincial Auditor. No one has said to me that they feel the government should ignore the Provincial Auditor's advice, and I take that very seriously.

**Mr Wiseman:** Well, you're wrong.

**Mrs Caplan:** How can I be wrong? I'm telling you that every person I've had a conversation with—

**Mr Wiseman:** Because it's right here in Hansard that you're wrong.

**Mrs Caplan:** —says that you should follow the Provincial Auditor's advice. No one says you shouldn't listen to the Provincial Auditor.

No company, no business that is responsible and accountable to its shareholders would be able to get away with the shenanigans that the Rae government has been attempting in its disregard of the advice of the auditor. Any company, any business, that disregarded their auditor's advice would be penalized. They would be fired by their board of directors, by their shareholders.

1440

I say to the government and I say to this committee that I believe this report will be absolutely of no significance unless we recognize how important it is for the government to present its budget in a way which is acceptable to the Provincial Auditor, which follows the Provincial Auditor's advice. I appeal to the government members to consider the interests of your constituents, the shareholders and the taxpayers of this province, the citizens of Ontario, and let's make this report to the

Treasurer mean something. Let's make a difference. Let's make sure he knows how important we feel it is to follow the Provincial Auditor's advice.

**The Chair:** I don't know if it's appropriate, so I'd like to put this to the committee. I do know some things that have happened in government that none of these committee members would know. I'd like to share that, because it's germane to what we're speaking about, but I don't know if it's appropriate. I'll let you think about that, and Mr O'Connor's up next.

**Mr O'Connor:** It probably is most appropriate, Mr Chair. Thank you for yielding the floor to me after three speakers from across the way.

We need to take a look at exactly what is being discussed and presented here. I certainly do appreciate the fact that the NDP government hired this Provincial Auditor, who has taken this proactive approach to actually come before the committee. They're right, we've got one taxpayer, and for too many years we had to sit back and—well, look at the last Liberal government that was in power here in Ontario. If they were to have done as Mr Peters, our Provincial Auditor, is suggesting, we would in fact have had deficit situations through all those times even when they said they had balanced budgets.

The reality is that my former employer, for example, General Motors of Canada, operates in a procedure very much like what the province is now operating in, and I don't think anyone is ever saying they're totally a disreputable corporation. In fact, I think they're still what could be referred to as a blue chip stock likely. They're a good corporation, making money—ups and downs with recessions, as recessions go.

Let's try to make this a little bit easier for those watching. I'm glad Mr Carr wanted us on television today because it gives us a chance to explain things in a bit simpler terms.

For example, I've got an income that comes in once a month, a paycheck that comes in, and I've got bills. I've got my hydro bill. Thanks to the NDP it's been frozen for two years in a row; it never happened before. But I've got a hydro bill that comes in every month. I know how much that's going to be—maybe; I don't know for sure, because it's consumption. I've got a telephone bill, a cable TV bill, a car payment, a mortgage payment, insurance, heating oil. I can, at the beginning of the month, project what my costs are going to be. I can sit down and try to figure out in a ballpark range what it's going to cost me for the whole year, and then I can maybe plan a summer vacation, take my wife and son and go someplace, maybe consider a trip to Canada's Wonderland with Patrick, my young lad.

But all of that you can put in a projection. You call it a budget. I don't know until I actually pay these bills how much those bills are going to be. I can't say today what my hydro bill is going to be next month because I don't know how much the lights are going to be on—the days are getting longer—and it's warming up a little bit, so I may not need to use the clothes dryer quite as much, or the heating oil; maybe the furnace isn't going to be on quite as long. But I can't say for sure what it is.

Now, there may have been some magic in the days when the Tories and the Liberals were government. They may have had some magic wand they could wave: "I know what the public accounts are going to look like because I can come up with a budget that's going to be the very same as what the public accounts are going to be in 18 months." It's going to take a while for the bills to come in. I'll tell you, when I go and do a bit of Christmas shopping and put it on my Visa card, I don't know the next day what that amount is going to be. I've got to wait for the bills to come, and sometimes you forget about some of the bills until you've got them all added up, and then there's interest. You can't project all of that. You can't project your heating costs. It's not possible.

There are some things you can define as what are going to be the costs, so we budget a certain amount. We budget a certain amount for groceries. At the end of the year, when you add it all up, if you refer to it as our public accounts, they may not reflect the same. I don't think they did in the Tory years or in the Liberal years. In fact, if we were to go back to those years and use the accounting procedures that are being suggested by our new Provincial Auditor, the one the NDP government hired, they wouldn't have had the balanced budgets they pretend to talk about and refer to sometimes, quite proudly. The fact is, they didn't have balanced budgets. Yes, they had a budget book; they tabled a budget once a year. They tabled a budget and projections of what the costs were going to be, and, lo and behold, at some time down the road the public accounts came out. The two weren't always identical, and I would hasten to guess if they ever did balance, between the two of them.

I'm not suggesting that the Liberals or the Tories cooked the books when they were in office. Far be it from me to suggest anything like that, because that wouldn't be the case. No doubt they probably had some situations where borrowing costs might have been a little bit higher, because we know they didn't have balanced budgets all the time. There are economic cycles we go through, like the recession we've just gone through, and no doubt they couldn't have predicted the amount of job loss that would happen in the industrial heartland of Canada as a result of this recession and the job loss that would go so deep as a result of trade policies, how much of the economy would go underground because of the GST. Those are not the kind of things you can predict easily.

I'm glad we've finally got a Provincial Auditor, hired by the NDP government, who wants to be active—maybe a little bit over-critical at times, no doubt. In fact, Mr Peters and I sit on the public accounts committee, so we certainly have all kinds of wonderful opportunities to discuss back and forth. In fact, I like to consider Mr Peters as an equal on our committee. On the public accounts committee, he sits at the table with us an equal on the committee, and we work in a very cooperative fashion. Unlike this committee, the public accounts committee is much less partisan. This seems to be more partisan than is probably necessary.

But in putting together this report and trying to define some guidelines for our legislative research officer, I



think, yes, there needs to be a section put in here with the comments of the auditor, who was hired by the NDP government. I welcome his new approach. It certainly is a bit different, and it would have been interesting if he had been here 10 years ago and had a chance to comment on the books of the Liberals, or maybe even go back a little further and comment on the books of the Tories, who in all those 42 years never had a balanced budget.

Let's deal with the reality of today. Let's not try to say that the budget is one set of books—it's a reality, it's projections—and the public accounts is a different set of books. There aren't two sets of books. Contrary to what people are saying, there aren't two sets of books.

The reality is that if we take a look at the financing approaches, one that General Motors follows, it makes sense, makes some sense to borrow on the equity we have and use that, put it to work, and to make sure we take a look at what the needs are of the people of Ontario and try to meet those needs the best we possibly can.

I guess sometimes we try to overcomplicate things. What I'd suggest is that we try to take some of the issues and make it a little easier for people watching to get a little better understanding. As my friends suggest we should be on television, it certainly provides that opportunity for the people.

The budget is going to be a projection of cost. We've gone through the committee hearings. We heard from the Provincial Auditor; he came to the committee. Following that, we had the Treasurer of the province come before the committee. We had the Provincial Auditor suggest, "I'd like to see this included in the budget." When we had the Treasurer come before the committee, the Treasurer said, "It hasn't been done before, but we'll see what we can do."

But even the auditor, when questioned about whether the body the public auditors belong to, PSAAB—when they sit down and try to define how they'd like the books to be done, they can't even come up with a good recommendation. The public auditors among the public auditors can't even come up with consensus, so it's no wonder that in a partisan forum like we are here in this committee room we can't necessarily come up with an agreement.

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That's why, as has been pointed out, we have dissenting opinions appended and tabled at the same time as the committee report. There are going to be some things that all of us agree on that are going to be part of that report, and hopefully the research officer is going to be able to use the information we present. Where we disagree, I think it's most important that we do get that dissenting opinion tabled at the same time so we can hear the different views, because certainly we can't agree on everything. It's likely not going to happen that often; it's going to happen once in a while.

For the bulk of the report I think we're going to see that we all do agree. For the majority of the presenters who came forward, we're all going to find something in what they presented to us as good points to be included in that report. People have written us, taken the time to

write a brief and send it off to this committee, and we've had a chance to review it. Some of what we're going to be talking about is going to be reflected in that opinion as well.

To the legislative research officer, on this point we've been talking about for a great deal of time this afternoon—in fact, Mr Phillips started the discussion this morning, I believe—I think we should have a part in there that reflects some of the comments of the Provincial Auditor. But he wasn't the sole presenter here. I think that opinion should be put in, and we should make sure we try to get a balance and reflection of what everyone else presented.

**Mrs Caplan:** And note that most people agreed with him?

**Mr O'Connor:** That not everybody did agree with him, though a good number of people did agree with him.

**Mrs Caplan:** Most people agreed with him.

**Mr Sutherland:** I just want to make it clear. Mr Carr talked about going back three years, Mr Phillips talked about going back three years. Again, at that time the concern was about the public accounts and dealing with the issue of the public accounts. That issue of dealing with the public accounts has been addressed, as I indicated. As to budgets, there are six other provinces—Tory governments, Liberal governments—that do not present their budgets in an accounting fashion that is similar to how they keep their public accounts, whatever they've chosen.

The advice I want to recommend to the researcher again is that obviously there is reference to the issues the auditor has raised in terms of his concern about presentation, and comments from the Minister of Finance.

In respect to question 2, do we like the table prepared and presented by the auditor, I don't think that table needs to be included. The auditor has made his comments known on those issues before and it's not new information. I don't think it needs to be presented in table form. If there's some reference to some of the things he said in the comments section, that would be fine.

Finally, I think we should have a summary of the comments about the change in the public accounts and the changes to accrual accounting. If I recall, I did say earlier this morning that since that issue was kind of done, we wouldn't need to pay a lot of attention to it, because it's just more or less summarizing what's already occurred rather than commenting about new issues. So in terms of number 3, we probably wouldn't need a lot of time on that.

That would be my suggestion in terms of how to proceed on this issue: a summary of the comments of the auditor; a summary of the comments of the Minister of Finance; I don't think we need the table; and then probably a paragraph to summarize question 3 that the researcher has presented.

**Mr Kwinter:** I just can't leave unchallenged a couple of the comments that have been made by members of the government side. To put it as kindly as I can, it's supposed to be enlightening and in fact it's really misleading.

Just so my friend Mr O'Connor will know, when he

comments about the fact that this is a budget and there are lots of things we can't predict, what happens is that the Treasurer issues a quarterly report and says how he is on budget, lists every single expenditure, lists his revenues, says we're either up or down, shows what the difference is, and that goes right through till the end of the fourth quarter. There are no surprises in that area. But what has happened, unfortunately, is that I don't think the government members understand the issue, and I say that kindly.

What we're saying is this. If you're debating whether we should use the accrual method or whether we should use the cash method, I agree, that's a matter of opinion. As Mr Sutherland has said, there are four or five other provinces that have said, "We don't agree with the way you're doing it," and I have no problem with that. I mean, I have a problem personally, but I have no problem if the government says: "We're sorry. This is the way all the previous governments have done it and, notwithstanding what the auditor says, we are not going to do it." I have no problem with that.

Where I do have a problem is where the government says, at public accounts, "We have agreed with the auditor and we have reported the way the auditor has suggested," which is what happened in 1994-95, which is what we're doing—where I have the problem is, after having agreed that, "Yes, notwithstanding that we haven't done it that way in the past but we're doing it now," you still report your budget in the old way. That makes no sense.

If you were going to say, "Sorry, we don't agree with the accrual method and we're not going to report that way," I'd have no problem. As I say, I might have a problem, but that is not the issue. When we use the term "two sets of books," that is a misnomer, I agree; all the figures are there. But the way it's reported, it's reported in two different ways, and that is the issue. The government has made the determination that: "Yes, we are going to show our accounts at public accounts under the accrual method. That is the way the auditor wanted it. The auditor has signed off unconditionally; he says that's fine. But notwithstanding that, we are going to go to the old method of projecting our budget." That's what doesn't make any sense, and I defy anybody to justify it.

Mr Sutherland can say there are six other provinces that do it. There isn't one other province that does it. There are six other provinces that don't use the accrual method. I agree with that. But once you make the decision that you are going to use the accrual method, surely you have an obligation to project your budget so it conforms to the method you're using. You can't have two different ways of reporting: one that you've agreed to at public accounts and another that you've agreed to at the budget. That is what the issue is all about.

**Mr Phillips:** To comment on something Mr Sutherland said, just to assure you, I think you said the debate in previous years had been around getting the public accounts right. From our side, it's never been about that. It's been about getting the budget reported in a way that reflects reality. In fact, we were very specific last year in our recommendations to say, "We understand

the government is going to report the public accounts the way the auditor wants them," but that's not what's important, because, as everybody I hope now knows, the public accounts come out 18 months after the budget's presented.

I will absolutely guarantee you this. When you present the budget, the headline in the paper will be whatever you call the deficit, and the deficit will be I think what you've got in this book. I don't have much doubt that we've pretty much seen, by and large, the budget, how you'll present it. You'll show a \$6.5-billion deficit. You'll say: "The deficit is going down from \$8.3 billion. We're on a nice, even track. Everything's just fine." That will be the public perception.

I guarantee you that the analysts, the people who make money on trading on our currency and the people who make money on understanding the real financial wellbeing of the province—and big money is made on this stuff. This is what they get paid for, to watch the real budget. Money is made around the world on the basis of the real numbers. I guarantee you that every significant analyst will be putting out the real deficit for the traders and will say, "Today's budget was reported at a deficit of" and it will be \$6.5 billion. I suspect you'll probably try to do a little bit better, "Government surprises public with a deficit of \$6 billion" or something like that, but the people who understand the numbers, as they did last year, will very quickly, in a matter of minutes almost, publish the real number.

#### 1500

This was one of the auditor's major recommendations. This is what he was so strong about. He said: "Listen. The people who can really make money on this understand it. The public isn't being given the numbers." That's why he alerted us in his presentation. He actually gave us a little chart to show what the comparison will be. This deficit that's in this book here at \$8.3 billion, this little headline, "Ontario's deficit down by 30%," well, the auditor is telling us that this number is not \$8.3 billion, it's \$10.7 billion.

**Mr Sutherland:** It's still down by 30%.

**Mr Phillips:** No, no. Just so people know, one of the government members said the deficit's still down by 30%. Actually, unfortunately, it's not. If you accept the auditor's recommendation, the deficit is not down by 30%. The deficit is down by maybe 10%, 12%, and that's the auditor's point.

I will just say to us, if we don't get the budget reported properly, there will be two numbers that day. The first number will be the one that everybody reports. I've no doubt you can almost write the public budget right now, and then all around Ontario the people, as I say, whose job it is to understand the value of the currency in Ontario will do their own numbers and they'll say, "I'm sorry, it's not \$6.5 billion." In fact, we got the first tip today. We know what will be reported in the capital budget in the province of Ontario: \$2.2 billion. That's what will be in the budget. In fact, the government has it right here: \$2.2 billion in capital. That's what this says, \$2.2 billion.



**The Chair:** Mr Phillips, I find it difficult to interject when you're making good points, but I want to remind you that these points have been made at least half a dozen times and we're getting very repetitious.

**Mrs Haslam:** You must have enough footage now to send out to your constituents. This is getting ridiculous.

**The Chair:** The role of the Chair, I must remind you, is to move along the business of the committee, and we have heard these comments repeated at least, I believe, six times now. I'm not saying they're wrong or right; I'm just saying they have been mentioned.

**Mr Phillips:** I'll just close by saying how important it is for us. I realize that the research officer is going to have to draft some language for us and then we'll have this debate when we're looking at the recommendations.

**Mr Wiseman:** I've been sitting here listening to all of the comments about whether or not this is going to be reported and how it's going to be viewed and whether the question is this number or that number.

When the budget is produced, there are more numbers in there than just the two that we've been bandying around. For example, it starts out with a column called "Financial Transactions" where they talk about the revenue. It even shows the fiscal revenue and outlook for the last 10 years. Then it goes to operating expenditures, excluding the public debt interest, the public debt interest being the interest we have to pay on the accumulated debt.

Then it goes to public debt interest and then it goes to the operating deficit or surplus, and according to the auditor, there have never been any surpluses. So even by using the Provincial Auditor's yardsticks, the so-called surplus of the Liberal government that they are so proud of just disappears into vapours with that.

**Mr Phillips:** I'm sorry. What's the reference document, just so I have an idea?

**Mr Sutherland:** Page 118 of the budget from last year.

**Mr Phillips:** I'm looking at that. I see surplus, surplus, surplus, surplus, 1987-88—

**Mr Wiseman:** You see it under operating surplus.

**Mr Phillips:** Yes, I see that.

**Mr Wiseman:** It seems to me that what's happened there is that the previous governments have separated operating from capital in order to show a surplus. When you add them together, which I think is what the auditor wanted everybody to do, which happens later on down in the columns, then you can see that the budget has a considerable amount of detail, "Accumulated budgetary requirements" and "Net financing." It means how much we have to borrow. "Provincial purpose debt" excludes Ontario Hydro and all other contingent liabilities—whoa. You mean, we didn't put it all in there before? My, how could we have been so negligent in the past?

Then it goes on to "Gross domestic product at market prices," and I assume that's in there to show the state of the economy in terms of how well it's growing on the basis of all of the indicators being added together to create a gross domestic product.

"Personal income": How much was the total income from the people of Ontario?

"Population": I assume that that's an important figure because it allows people to figure out how much the average income is and allows them to figure out what the total debt per capita in dollars is. So there's going to be a number there.

"Personal income per capita" in dollars. That's your average.

"Expenditure as a per cent of GDDP," "Public debt interest as a per cent of revenue," "Total debt as a per cent of GDP," "Cumulative net borrowing for Ontario Hydro," from the United States, I guess, US markets, and from the Canadian pension funds, and the "Contingent liabilities," mainly from Ontario Hydro. From the looks of this, I've got more numbers here than I think that we've been talking about. I don't think we're hiding anything. If you go through these numbers, this is a whole panorama of information about the state of affairs of the economy of Ontario.

If you care to do a little bit of math, you have an opportunity to define and find out everything that is happening in the province of Ontario. If this chart isn't enough, there are charts on the preceding five or six pages and four or five pages beyond that. So there isn't any attempt to hide any of this.

If you go back and you do a little analysis of previous budgets and you look at projected revenues and then actual revenues and you do a comparison, what you'll find is that they're off; they're not correct. If you go back and you look at projected expenditures and you compare that to the actual expenditures which are finalized in the next year's budget document, in this budget year's document the numbers for 1994-95 will be put in as an interim number and then in the next year's budget they will be put in as an actual number. You will find that these are often different, and that is because the budget, as my colleague Mr O'Connor said, is an attempt to project what is going to happen and how it's going to evolve.

For example, I think it's interesting to note that in the third-quarter presentation by the ministry there seems to be a revenue increase this year of about \$209 million, and this revenue increase has been put against the operating deficit, according to the third-quarter numbers, to show that the operating deficit is going to be lower than was projected in the budget. So all of that \$209 million in windfall revenues has been applied by the government to the deficit. So the current outlook—be careful how you phrase that, so that people can understand—for the operating deficit is \$6.139 billion, \$209 million less than it was projected in the budget plan that was put forward in the budget.

**Mrs Caplan:** You are defending the indefensible.

**Mr Wiseman:** The point I'm trying to make here is that all the information is here, that to go back and analyse the previous budgets, you will see that the information is always all there. It's all added up. There's nothing hidden anywhere. In fact, there are lines in the budget that say "Excluding capital costs" from such and

such and so on. There's nothing hidden here.

**1510**

In fact, I would like to point out that the way the budget is being done in terms of separating capital from operating is exactly what a large number of people in this province have been saying we should be doing over a long period of time. The one that stands out in my mind, of course, is the Ontario Road Builders' Association. Mr Arthur Ryan came in and said:

"If you have a capital investment, the government has to operate—and I'm an accountant by profession, so I can make these statements with some credibility. In a normal private sector industry, when you have a capital investment, you write off, on a diminishing balance or an amortization basis, the cost of that asset. There's nothing wrong, in this economy today, with doing that."

In fact, he goes on to say that he's very pleased that this government finally listened. Even though he made those recommendations to the previous governments, they did not do that. He says:

"You know, I think you had a representation yesterday from the Treasurer and from the auditor general, and there was some comment about what I guess the auditor general termed to be off-book accounting relative to capital investment. Frankly, our association has promoted that concept for many, many years. It promoted that concept with David Peterson.

"We have a strong position to take in the sense that when you are making an investment of a capital nature, any administration, whether it's NDP, provincial, or a PC government, has to differentiate between expenditures made for operating expenditures and capital investment."

He goes on to say with reference to the auditor: "I think he's totally out in left field, frankly. My two sons are chartered accountants and they work for that government. Anyway, that's my view."

So we don't have the kind of level of consistency in terms of representation from the—

**Mrs Caplan:** You are defending the indefensible.

**Mrs Haslam:** You were wrong.

**Mr Wiseman:** Mrs Caplan and the opposition say we're defending the indefensible.

**Mrs Caplan:** You are.

**Mr Wiseman:** Well, let me tell you that when I look at the way the Liberals did their budgets for the last 10 years, the way you had revenue coming in with your increases every year of between \$3.5 billion to \$4 billion, the way you spent it, the way you ran deficits, the way you did your books, the way you do your books here now where you run deficits in your own books in your caucus services and you can't keep a record of that and you run a \$339,000 deficit and then you go to ask for that to be given back to you and forgiven, I can't believe that you can sit there and tell the people of Ontario that you know how to do the books, because quite frankly when I look at the books for the last five years, when you were the government, you spent faster than it came in, you left huge increases and you built in costs that are just unbelievable. So when I say—

*Interjections.*

**Mrs Caplan:** They always attested to our books. The Provincial Auditor never refused to give us an unqualified statement.

**Mr Wiseman:** Anyway, my point here is that if there's some question about the level of information in a budget, there is ample information in the budget document, and I think that when we see the budget, most people will agree that the information they need to make decisions and find out what's going on will all be there.

**The Chair:** I'll remind the committee members again that we are not complete with respect to "Economic and Fiscal Policies." We still have a couple of speakers. We haven't dealt with "Sectoral Issues," we haven't dealt with "Social Issues" and we haven't dealt with "Transfer Recipients," and I would suggest that, in my opinion at least, "Social Issues" are probably one of the most important issues we could deal with today and we haven't even come close to getting there yet. We still have to hear from Ms Haslam and Mr Phillips one more time.

**Mrs Haslam:** Oh, not Mr Phillips again. I just wanted to say, I think we have talked this thing to death. We are supposed to be giving general directions. If we want to get on a platform and do this again tomorrow under our recommendations, fine. I'm going to make a suggestion that we get on with the general discussions now and go on with "Sectoral Issues" and deal with what we came here to deal with, and all this parading has just got to stop. Let's get on with what we have to do.

**The Chair:** I'd like to get on with "Sectoral Issues," but the research officer, Ms Campbell, would still like to ask a couple of questions with respect to more detail with respect to "Economic and Fiscal Policies."

**Mr Carr:** You haven't heard enough, Elaine?

**The Chair:** And yet we still would like to hear from Mr Phillips.

**Mr Phillips:** I won't be controversial. Just that Mr Wiseman I think was using this chart, and it illustrates the problem we have actually, the chart, because if you add the four deficits up from 1991-92 to 1994-95, you accumulate those deficits and the total is \$40 billion. But then if you look down two lines to how much money have we actually had to go out and borrow in the marketplace, it's \$48 billion.

**Mr Wiseman:** Refinance.

**Mr Phillips:** He says, "Refinance." It's net financing. We have borrowed \$8 billion more money than we've reported spending and most of that, according to the auditor, is as a result of moving things off the books. So the numbers you quote there, that's our point; that's what begins to signal to the financial community that the province is actually borrowing \$8 billion more money than it's reporting spending. It must be going somewhere. There's lots of net financing going on, but this is net incremental borrowing. So the debt went from \$42 billion to \$90 billion and the deficit went from \$38 billion to \$79 billion. There's an \$8-billion difference. That's all I'm saying.

**The Chair:** I'd like to let Ms Campbell pose the questions she needs in order to get the necessary



information to conclude the "Economic and Fiscal Policies" portion of this report.

**Ms Campbell:** I'd like to summarize what I take as the general directions that have been provided to this point. It's my understanding that the members are agreeable to the three themes that appear in the outline: provincial deficit and debt, taxation, and private and public sector partnerships; as well as some new themes: job creation, unemployment, non-tax revenues and the issue of regulation and red tape.

I have some specific questions related to two of the initial themes. The committee members are agreeable to the bullet points that appear under the heading "Provincial Deficit and Debt." Of the questions that are found under there, the first was, "Would the members prefer that the auditor's concerns precede those of other witnesses?" I've heard one comment that yes, they should. Is that the general consensus of the committee?

**Mr Sutherland:** I don't think it really matters.

**Mrs Haslam:** I don't think it matters.

**Mr Sutherland:** They're all going to be in there.

**Ms Campbell:** With respect to the second question, "Would the members like the table prepared and presented by the auditor to be included in the report?" I heard conflicting responses to that.

**Mrs Caplan:** Yes.

**Mr Sutherland:** No.

**Mr Kwinter:** Yes.

**Mrs Caplan:** How can you say no? It's part of his presentation.

**Mrs Haslam:** No.

**Mr Wiseman:** No.

**Mr Sutherland:** Well, we're not putting in all the charts and graphs and every table that we've prepared from every group. So, no.

**Mrs Haslam:** It's a generalization.

**Mr Kwinter:** Okay, we'll put it in ours.

**Mrs Caplan:** You leave us no choice.

**Mr Sutherland:** There you go.

**Mr Wiseman:** Like it's the end of the world if—

**Mrs Caplan:** Well, then why wouldn't you include it?

**Mr Sutherland:** Some of those comments will probably be referenced in the general section.

**Ms Campbell:** There's a third question related to the auditor's comments relating to the amount of detail that the members would like included. Is it the desire of the committee to just have an overview of what was presented to the committee by the auditor or is there a need to provide some background and context to his presentation?

**Mr Sutherland:** Are you on point 3? I think it's fair to put some reference to the comments the auditor made about where we were in terms of before, when we were at the cash basis, and now we've gone to the accrual basis, and a quick summary of that.

**Ms Campbell:** With respect to the heading "Taxation," the committee is agreeable to the bullet points

there plus a reference to the public frustration that people felt was expressed during the hearings and what they've heard outside of the context of the hearings. There was also a request made for specific references to the issue of property taxation, specifically education and assessment issues, and also the employer health tax and other payroll taxes and premiums.

I have no more questions related to "Economic and Fiscal Policies." I guess the next issue to be dealt with is "Sectoral Issues."

**Mr Sutherland:** Mr Chair, just before we go on, because it's related to this issue, during the hearings I believe it was the CFIB who had some concerns expressed about the chart we put forward on payroll tax comparisons from different jurisdictions. One of the issues I believe they brought forward was that we weren't including workers' compensation costs in those. As a result of that, the ministry was asked to give us some clarification on how that chart was done that came up with that, so they have presented a two-pager here and I would just like to table that for distribution for members of the committee.

1520

**The Chair:** Thank you, Mr Sutherland. The next portion of our event today is "Sectoral Issues."

**Ms Campbell:** I'll just briefly read the comments under this issue. "As in past years, the committee heard from representatives of many of the province's economic sectors." And what we have listed below are the sectors that were represented in the hearings.

There has been some general discussion surrounding sectoral issues this morning and perhaps earlier this afternoon. I have the sense that there are perhaps a couple of possibilities here. What is suggested in the outline is that the sectors be discussed separately, some perhaps be merged, or there be a focus on points of commonality in some sort of general overview.

I had the sense that there were some members of the committee who would like general issues raised by the sectoral representatives incorporated with the "Economic and Fiscal Policies." I've also heard that there are some members of the committee who would like to keep the specific sectoral headings and have some discussion about the sector-specific issues raised by each of those groups.

**Mr Carr:** On that point, I know we had some discussion this morning on leaving somebody out, and I think that's difficult to do. What I'm going to suggest is not talking about some the problems, but one of the things I think might be helpful—and again the problem with doing that is I think we have to be delicate in doing it because it may leave the perception when you don't talk about other sectors that they aren't doing so well. But the one thing that I think we may be able to agree on and what I was impressed with, maybe coming from Oakville where Ford is, when the motor vehicle manufacturers came in, is the fact that we are in some sectors doing very well, the automotive being one.

I don't know how we can delicately do that without leaving the other sectors appearing to maybe be not doing so well. But I think to put a positive note on it, these

reports are often negative, and if we can somehow get in there about how well we're doing in that sector, because quite frankly, as I said during the deputations, and I think we all agree here, had the automotive manufacturers not been doing as well as we have been doing with our exports, 90% of which are exported to the US, our economy would be in real, real rough shape. And I don't say that as somebody from Oakville with Ford. I think even the Minister of Finance recognized that.

I don't know how we'd do it without raising one group above the others, but I think somehow we may want to show that there are some sectors, and we may even do it by not naming the automotive manufacturers by name. But I think somehow what Elaine can do is to show that there were some good things that came forward with what we are doing here, that it isn't all doom and gloom, that, as I said to them, we compete with the Americans, the most powerful economy in the world in automotive, probably the biggest sector in the world, and we beat them. We produce cars faster, better and cheaper here in this province because of the great, skilled people we have.

If we can somehow get the research officer to incorporate some of the good things—I maybe honed in a little bit on the motor vehicles because that impressed me particularly and because it's a strong part of our sector. But if we could add something positive along the lines, and if I could even make a suggestion, showing that the reason they've been successful is because management and labour, the worker and the employees, have all got together and decided: "To heck with the governments. We're going to be successful." I think if we could put something in there very positive about what is happening, either in the broad sense, in this economy to show the people out there that in spite of everything there are some good-news stories and that it isn't all doom and gloom and that we do have some sectors that are competing, thriving and doing well.

So if I could just add that, and I don't know how we could do it. I would appreciate any other comments with any of the other members to do that, but I think there could be a consensus that that might be a good idea, to show that in spite of everything we still have the best employees and workers here in the province of Ontario. If we could do that, I think that would be helpful.

**Mr Sutherland:** I think that's very important because auto parts and auto manufacturing is the largest industry. I guess the only thing I would take out of what Mr Carr has said is that—

**Mr Wiseman:** We're doing a good job.

**Mr Sutherland:** Yes, I think I want that quote definitely in there: "Gary Carr says the province is doing a good job in auto."

**Mr Carr:** The automotive sector's doing well in spite of you.

**Mr Sutherland:** I really do want to take exception to the one comment about saying that somehow government hasn't played a role in that. I think it's very clear that while the auto industry and the workers have done a very good job, there's no doubt that government has been

involved in a lot of the different areas.

Mr Carr knows that even in his own plant, the Ford plant, both commitments by the previous government and this government—and I can think of all the others: the CAMI plant in my own riding in terms of commitments made by the previous government; the Toyota plant had commitments, their new engine plant had commitments, the new assembly plant didn't. But all along, with a lot of it, there is a role government has played.

I don't think you can totally exclude and say, "In spite of government, all this investment is going on," because government has played a role. I give credit to the previous government for getting some of the ones here, and some of the new expansions that have occurred have occurred since that time. Government has played a role.

**Mr Carr:** What I would like to do is beg to differ on that, and I'll just give you a quick point: I was at the opening when Floyd Laughren stood up and tried to take credit, and it was \$7 million of \$1 billion. I want to tell you the lights were off and 2,500 employees at Ford booed Floyd Laughren. They booed Buzz Hargrove because Buzz Hargrove got up and started going on about the free trade agreement, with 2,500 employees saying: "Ninety per cent of our cars are going to the States. What are you talking about?"

One thing that struck me, in looking at this, was that there was one person who was cheered, and I will say this: They introduced the mayor, they introduced the chief of police, everybody got booed. Floyd got booed the most and, as you do in all these, he mentioned the Premier's name and he got booed. The one guy who got cheered—there were actually two: the union members who were on the committee. Buzz Hargrove got booed because he tried to blame all our problems on free trade. The union members who were on the committee that made that decision got cheered, and this would have never happened five years ago. The other person who got cheered was the president of the company. You know what he did? He stood up and he didn't try to take credit. He didn't say it was the government that did it. He said: "You know why we got this? It was because of you people."

So I would beg to differ. I know you in the campaign are going to try and say the \$7 million, when you cut the ribbon there, was the reason you got it. Quite frankly, the \$7-million cheque, Ford said, "Great, we'll take it," in \$1 billion. I beg to differ, but I want to tell you the degree of support that would be there, and the \$7 million was a drop in the bucket compared to the reason we got it. In the overall scheme of things it had absolutely nothing to do with it, because quite frankly this investment probably even predates you. Monte Kwinter can probably speak on this. It goes way back.

I will tell you some other things that Ford tells us in private that I probably—well, I won't share with you. But I want to tell you I cannot put in there anything that says that the reason we got the investment in the Oakville plant, as an example, is because of this government, because I want to tell you, the 2,500 employees—not me—who booed Floyd Laughren and booed Buzz Hargrove and cheered the president of the company, the



people who they agree did it were the union members who were on that committee with management. That's who we have to thank in all this instead of making it political. I don't want to be negative towards the government—let's say it's neutral—but I couldn't agree to anything saying we've got the auto investment here because of this government, because I think—

**Mrs Haslam:** What you were saying was governments had no part to play, and what we say is that it's not correct.

**Mr Carr:** What I'm saying is that in our particular case, and I can't even speak about the specifics of Windsor, but that anecdote about what happened, and it doesn't matter what you or I think, the employees who are there, the 2,500, a lot of whom I happen to play hockey with and talk about, we've had many discussions on this. They know that the reason they got that investment is not because of any government giving them any type of grants; it was because the employees and the management got together and said, "What are we going to do?" That's what I want to make clear. Let's not try to play politics with this particular interest. Let's give the credit where—

**Mr Sutherland:** Even you've got to laugh at that.

**Mr Carr:** I'm not even going to get into the negative parts about what they say in terms of what the investment would have to be over the next little while if they knew an NDP government was going to be in because, I want to tell you, I could get political and tell you exactly what they have said.

**Mrs Haslam:** You already have. That's what we're laughing about.

1530

**Mr Carr:** What I think we should do on this particular issue is give the credit where the credit is due, and it is not the government and it had nothing to do with any of the government officials there. It has to do with our workers and the management that got together, and that's the reason we got that investment.

I thought that would be one issue we could praise our workers for. I cannot agree with giving the government any type of credit, because it does not deserve the credit. That investment came in spite of you. That I will be political on because I want to tell you very clearly that investment had absolutely nothing to do with this government.

**The Chair:** While we're not being political, Mr Wiseman.

**Mr Wiseman:** I'm not going to be political about this at all.

**Mr Carr:** I thought that was going to be non-partisan. We could all agree on the workers doing a great job.

**Mr Wiseman:** When you read through the articles in the magazines, the Economist and Fortune magazine, periodically Fortune magazine will run an evaluation of the top cities for investment in North America. They leave out Canada most of the time because if they didn't, then all the Canadian cities would be in the top 10 and they wouldn't have any room for any American cities.

They talk about quality of life as being one of the most important issues. They talk about the facilities in terms of infrastructures and transportation, the ability to transfer products quickly. They talk about lifestyle, things like crime, the availability of a good educational system, the availability of good health care. They rank all of these things together and then they decide which area they're going to classify as being one of the best places to invest.

When you put all of those together, when you consider the crime rate and you consider the educational possibilities and the quality of education, what comes out is that Ontario and Canada are the best places in the world to invest based on where you could send your management and staff in order to have a good quality lifestyle and quality of life. Ontario does very well.

We have to ask ourselves, why is it that this happens? It doesn't happen by accident. It has to do with the fact that we have a different style of government, that in the United States most of the cities, the downtown cores of the American cities are just falling apart and collapsing, that the crime rates in these cities is horrendous. It has a lot to do with the lack of availability of jobs, the lack of the availability of health care.

Our health care system, for example, is one of the reasons we attract a lot of industries to Ontario. It's because there is a margin of competitive edge in Ontario because of the health care system and because of the way we do it. In the United States that doesn't exist. There are a lot of people who don't have health care.

Another thing—and it's too bad Mr Carr isn't here; I just want to be quite blunt—and it's too bad there aren't others here—but when I went to the Clean Air Act presentations in the United States, in Washington, DC, the Clean Air Act and the fleet emission standards are a very important reason why we have large engine production in Ontario. The fleet emission standards and the penalties involved in that mean that they cannot produce the large engines unless they have small engines to compensate and average out the fleet air emissions. So Ontario is going to do well because of that. There has to be investment here in that regard.

When you look at the workers and you look at the training and the ability of the Ontario workers, people always say that the Canadian worker, the Ontario worker, is one of the best trained, one of the most productive and one of the best equipped to be flexible in the workplace and make the kind of changes and adaptations that are necessary. We heard from a large number of manufacturers about how they are able to have a well-educated workforce doing different products on the same line because our workers can read and can write and can do the kind of work that is necessary.

To say that government doesn't have a role in that, I would disagree with it. To say that the philosophy of the government in power doesn't have an impact on that, I would also disagree with it. Because if you look at the non-interventionist, right-wing policies in the United States that have led to the deterioration of the inner cities and the inner cores of the United States and to an education system that has one of the highest illiteracy rates in the world in terms of Third World levels of

education and you compare it to the policies of previous governments and the philosophy that the state and the government have a role in making sure there's a high standard of living and a high education and a high quality of life in this area, that's to say that yes, government does have a role to play. To turn around and say there is no partnership, there is no reason that this has happened, is completely erroneous.

I would say that if we continue down the right-wing road that is being prescribed by some and we start to erode the system—

**Mr Carr:** Like Bob Rae.

**Mr Wiseman:** Try Mike Harris and the not-so-commonsense revolution. You will find that if we move in the direction of the non-interventionist, non-partnership role they have in the United States, we will not be able to sustain this quality of life. We will not be able to sustain the high quality of education and health care that we have today. That's really what we want to talk about if we're going to talk about the good qualities and the reasons that Ontario is a very successful place for people to live and for them to invest and to manufacture. Sure, we have some problems, but I think we also have the best place, and a lot of investment is taking place.

I think we need to emphasize that and to emphasize that it's not an accident. It's because over the last 40 years, be they Tory, Liberal or New Democrat governments, there has been a consistent effort to maintain those standards of living for the greatest number of people and to make those decisions. For us to go off that track now and go down in another direction, a republican, right-wing, monetarist direction, will erode the standard of living we have created. So to say that the investment at Ford is somehow not related to that I think is a huge misinterpretation of what has actually happened in our society in the last 40 years.

**Mr O'Connor:** I appreciate having a chance to participate in this part of the discussion, because for my fellow committee members who do know, I worked for a dozen years in the auto sector at General Motors in Oshawa. I'll tell you, it's the workforce there that really does have the biggest impact on whether or not the cars are going to remain to be built in the auto plants.

At the same time, our dollar has a huge impact. Our health care system here has a lion's share of the impact. If we go back and take a look at the medicare program, at health care, workers like the Steelworkers up in Sault Ste Marie sat down with the employers and said, "Let's come up with a community health centre and let's start looking at some universal care for our workers." That predates medicare and ends up being part of the infrastructure that we can all be proud of and that all governments have had a play in. I wouldn't want to take away the fact of who was the government when medicare came in, when expansions took place and improvements took place, because every government had a hand in that.

The CAW talked about things like wage protection, and it was this government that brought in wage protection in plant closures. The CAW talked for a long time about establishing an Ontario Training and Adjustment Board—maybe they didn't call it that—to make sure that

you've got not only employers and educators but workers involved in decisions around future training and adjustment processes.

I thank Mr Carr for suggesting it, but at the same time, labour wants to be involved with the government in expanding and changing and being part of the society as we do go on and as the times change. The PCs are saying they're going to scrap the labour legislation. It's fine for them to say that. That's what happens in politics. The next government has a chance to come in and make changes that could be on a very negative side, to take away from the benefits that have been extended to residents of the province.

1540

But there is a good deal of responsibility that's being shared and it just doesn't go to one group alone. I thank Mr Carr for finally recognizing the role the workers have. Back in the late 1930s in Oshawa, where I come from—it's certainly well recorded in the history books that back when the Liberals were under the rule of Mitch Hepburn they said to the people to end the strikes. The mayor of Oshawa said, "You're not getting off the train," and sent them right back into Toronto again. That was the beginnings of the UAW coming and taking a very strong hold in the auto sector, and today we've got the CAW, where they have the opportunity to have a say, a greater say now than they had in the past, and they want to have a continued say.

At times, I'll certainly agree, they don't agree with the government. There are probably a lot of times when Buzz Hargrove and I haven't agreed, and there will be times in the future when Buzz Hargrove and I don't agree.

I think the suggestion that's made is certainly important, but let's not overlook the role that everybody plays in this.

**Mr Kwinter:** I'd like to just set the record straight on the role of government and the role of the workers and the role of the other competitive advantages. As the minister involved at the time the Ford decision was made—you should know we have a history in Ontario.

To give you an example, while I was the minister, Honda in Japan asked for two cars to be taken off the production line in Alliston—nothing special; at random—and sent back to Japan. They went to Marysville, Ohio, the major facility for Honda in the United States, and said: "Take two cars off. Send them back to Japan." They went to the Japanese plant, "Take two cars off." These were all Honda Accords. They evaluated them in terms of finish, tolerances, everything, and decided the two best Honda Accords built in the world were built in Alliston. As to Toyota in Cambridge, I heard from the president of Toyota at the time that dealers in California were specifying on their orders that they wanted Cambridge Corollas because of the finishes, because of the quality. I spoke to the president of Camry at the opening of the Camry plant. He told me their experience is exactly the same.

There's no question that the reason a lot of these things are happening is because of the quality of the workforce, but it isn't just that. That's a very important feature. I think you have to be careful that you don't get



confused at what is happening.

The other situation, and just to recount what happened at Ford so you'll know—and I'm sure some of you may know—Ford Motor Co was looking to expand a van plant. There were two facilities that were competing. One of them was in St Louis, Missouri, and the other one was in Oakville, and it was an intercompany competition. It wasn't a matter of deciding, "Where are we going to go?" It was a decision about, "Do we expand in Oakville or do we expand in St Louis?"

I was approached by the executives at Ford: "We don't need the government of Ontario to give Ford Motor Co money"—and that's one of the biggest concerns people have, why are we giving money to these huge corporations—"but we have to be on a level playing field in order to attract business, and one of our problems is that in order to be able to attract this facility, we need infrastructure upgrading and we need training. That infrastructure upgrade is going to benefit all the industries in the Oakville area, as is the training, because we don't have a lock on our employees; they come, they go, and their skills are transferable. But if we're going to compete, we have to be able to have that provided, because if we have to absorb that, we are no longer competitive with the St Louis, Missouri, pitch to the board of directors of Ford."

That amount—I can't remember the exact—I think was \$102 million the provincial government had to come up with. That was a big number, and we had to make a decision: Is that something that we, as shepherds of the taxpayers' money, should be allocating? I felt it was, I was successful in selling it to my cabinet colleagues, and we agreed to make that contribution. That didn't guarantee we were going to get it, because we were still competing, but as a result of that and all the other factors you mentioned, plus a major factor, our proximity to the market, the fact that we're in a very, very favourable location, we were successful in getting it. By getting it, we anchored the Ford Motor Co in Oakville, because now they've put this huge paint plant in as well as the van plant.

So that is the positive side, and there is a role for government to play. Without the government doing that, we would have lost it because St Louis, Missouri, would have had a better picture to sell to their executives.

Having said that, the problem is that because the automotive sector is booming right now, there is a feeling that everything is well in Ontario and, "Look at all the investment," and we had the Treasurer show us this huge capital investment by the automotive sector. That investment is being made for one reason only, that the market is booming and they have a huge investment already here, and this is add-on investment to protect the investment they have and to service the market currently requiring their products.

What we don't see in those figures, and this to me is the telling figure, are the companies that are not coming here. I can tell you, and I've mentioned this once before in the committee, BMW and Mercedes have huge facilities that are planned. I'm sure you know that the Premier made a pitch to try to get one of them. We weren't even on the short list. We weren't even on the long list.

Those are some of the problems we have. A lot of the investment going on in Ontario is there because it's add-on investment. We don't see any greenfield investment other than the stuff that is there because they've got the critical mass and it makes eminent sense to add on to it. But I'll tell you, if the auto sector turns down, other factors are going to come into it. You've seen what's happened. You've seen what's happened in St Catharines, you've seen what's happened in other areas. It's a problem.

What we have to do is to make sure we are cognizant that we are in a globally competitive situation, and we have to make sure that all of our competitive and comparative advantages are there. That has to do with legislation, it has to do with taxation, it has to do with all the things that go into the mix.

I'll just give you one last bit of information, that was quite telling for me. The other day I had a meeting with UPS, and UPS is the famous case that just happened last month, where they are moving out of Ontario their particular telephone facility and are going to New Brunswick. I met with their public relations man and he showed me the figures, and it was quite interesting. What has happened is that there is a total change in the way business is being done. With the new telecommunications technology, those places can be anywhere. They can be in Iceland, they can be anywhere in the world that they have a link. It doesn't matter. So what happens is that it's a whole new parameter.

I'll give you one interesting thing. They went to the WCB when they were trying to decide where to go, and the WCB rate for their particular industry was \$3.28. They went to New Brunswick and the rate was 22 cents. I mean, \$3.28 to 22 cents. They went and looked at the cost of real estate. They went to look at the cost of living. They went to see the educational system. For example, one of the determinants is that they needed a bilingual workforce. There are lots of bilingual people in Toronto, but they don't have the ability to get them all together because there are so many other opportunities for them. So all these things are out there.

At the end of the day they said the labour legislation—they had a list, and I have the list actually with me. They had a list of about 10 determinants, and they said not one of them was the major determinant, but given all of them cumulatively, there was no question about where they were going. Again, they had a short list, and I think Welland may have been on the short list. But they said there was no question about it, and they're gone. And not only are they gone, but they told me that Xerox is there and all these people are there.

The interesting thing about it is that New Brunswick hasn't got a lock on the technology. It isn't that suddenly New Brunswick has invented this incredible telecommunications technology. It's available to anybody. But it's all the other things, and those are things that we have to be cognizant of. UPS will never move their trucks out of Ontario because this is where their customers are, but when it comes to these kinds of activities where you no longer have to be in a particular location because of our huge advances in telecommunications, we are going to be

really in a competitive situation and you're going to see more and more of that kind of activity go somewhere else, because we're pricing ourselves, we're regulating ourselves and we're legislating ourselves out of competition. Sorry for the soapbox.

1550

**Mr Carr:** I thought we were going to have something simple that we'd get a consensus on. I guess we don't. Elaine, do you have any questions on this section, so we can proceed?

**Ms Campbell:** I guess I'll repeat what I said earlier. The issue as I saw it after this morning's discussion was whether or not to have a discussion of specific sectors or incorporate the general comments made by the sectoral representatives under "Economic and Fiscal Policies."

Another issue that I failed to mention a few minutes ago was that there was some concern expressed this morning about the fact that the sectors that did make presentations to the committee were by no means an inclusive list of all sectors within the Ontario economy. Would the committee like a reference to that fact in an introductory paragraph, if it's decided to have a sectoral issues section, saying that the committee recognizes that the groups that did make presentations to the committee by no means represented the entire spectrum of the Ontario economy, that they are a representative sample?

**Interjections:** Yes.

**Ms Campbell:** But is the committee still interested in having discussions of the concerns raised by each of the sectoral groups?

**Mrs Haslam:** To some extent, yes.

**Mr Phillips:** We're already through the As.

**Ms Campbell:** So we'll deal with the specific concerns under each of the sectoral headings and then try to incorporate general concerns under "Economic and Fiscal Policies"?

**Mr Sutherland:** Yes. I just wanted to make a couple of comments. I believe we had some of the financial services sector in here and I wasn't sure where under "Sectoral Issues"—the bankers' association was in; the insurance bureau sent a formal brief, so we probably should include that as a sector. I want to add that.

I just want to make one other comment with respect to what Monte said about UPS. Prime Time News had a very excellent thing on Mr McKenna the other night, about what is going on in New Brunswick. He noted workers' comp rates and the difference, particularly in the call centre. The Prime Time News segment stated clearly that what New Brunswick has done is decided that, "In that sector we're going to reduce the comp rates." In effect, the rest of the industries are subsidizing that sector for the very low comp rates being provided in that sector, because the New Brunswick government has said: "That specific sector is a very high priority for us. We want to have a lot of the call centres there," and made a deliberate choice to lower the comp rates in the call centre to a significantly low, low amount. It isn't the case, in all the other sectors, that you'd find that much of a difference in their rates. I think that's an important point to add to that discussion. They've made a very conscious decision to do

that for call centres, and it is a big difference, there's no doubt about it.

It's also important to note, though, that in Ontario we have attracted a lot of new call centres in spite of all that. As a matter of fact, I understand the stats are that the new jobs we've attracted in the last few years are larger than the entire call centre industry in the province of New Brunswick.

**Mr Kwinter:** Mr Chairman, could I just interject for one minute? I think it's important. You should know that the key to the workers' compensation issue in New Brunswick was that UPS and other companies have said that what they do is apply the rate on their total company.

They have no quarrel that if a guy is delivering parcels by truck and he's got a 100-pound parcel, he can wrench his back, he can do everything else. What they're saying is that it was \$3.28 across the board, and: "That doesn't make any sense. Our people who are on telephones may drop a telephone on their foot or something, but the chance of their getting the same kind of injury frequency and rating as the rest of our employees doesn't make any sense. They may have some kind of metacarpal" whatever. They said, "We want you to separate out of our operation so that we don't get classified in that higher rating because of our drivers and the people who are delivering that stuff," and use a rate they felt was more reasonable for those people on the telephones. And that's what they did. It was an accommodation. Whether it's some other sector subsidizing or not, that was a major determinant.

**Mr Wiseman:** They've got their high-risk people in Ontario and New Brunswick got the low-risk people.

**Mr Caplan:** Don't be silly.

**Mr Phillips:** It's tough to deliver Ontario packages in New Brunswick.

**The Chair:** If we could have some order, we'll continue.

**Mrs Haslam:** For Elaine, I was the one who raised the financial-banking under "Sectoral Issues." It's listed under foreign and domestic loans. There were certain recommendations in there and certain priorities held that I felt were very, very viable in this document, and I just wanted to be sure it was handled under "Sectoral Issues."

**The Chair:** If there are no other concerns with respect to "Sectoral Issues," we'll turn it over to Ms Campbell and continue with "Social Issues."

**Ms Campbell:** The next area is "Social Issues." The committee heard from several social service providers and recipients. The summary you received with the proposed outline divided those particular organizations' and groups' recommendations into a number of subheadings. The members may wish to discuss social issues in the context of each of these subheadings, or they may wish to have a general discussion of the many themes that arose during the course of the presentations.

At the top of page 4 is a list of some of the themes that arose during those particular presentations. Members of the committee may have others they wish to have considered.



**The Chair:** With respect to "Social Issues," comments from committee members?

**Mrs Haslam:** It's fine.

**Mr Sutherland:** It's fine.

**Mrs Caplan:** Perhaps you could go back and check this, Elaine. Under "partnerships and linkages," and then the next one, "the need for a continuum of care," we heard from several presenters about the need to develop a true systems approach. I think that's different from just linkages or continuum, so I thought you might want to differentiate. There were a couple of presenters, but the one from the centres of excellence talked about the need to develop a systems approach, the sharing of information and all of that. I think that's a very important policy approach that should be identified under some of the subheadings and common themes.

**Ms Campbell:** Do I take it then that the committee would prefer to have a discussion dealing with themes, as opposed to the particular segments who made presentations to the committee?

**Mrs Caplan:** It seems to me that if we deal with the themes, what you see are the things that affect all of those, and if there are any that are specific and don't fit within those themes, we can identify them. But as we said we would identify that concern, it might be interesting to point out in the margin, if you will, the organizations that had that same concern. There were repetitive themes through all of the social service sectors and I think it's quite interesting to see how they come together in that way.

**Ms Campbell:** I did have one question under this particular area. Some of the members may have noticed that in the summary that was distributed yesterday, under "Social Issues" there was a general category entitled "Health." There would be a lot of overlap between the concerns that were raised under that heading, "Health," and "Hospitals" under "Transfer Recipients." The members may wish to consider discussing health issues with hospitals under "Transfer Recipients" when we get to that section.

1600

**Mrs Caplan:** In fact, I think most people would agree that hospitals are a component of the health sector, but we also heard some arguments that social services equally are a part of the determinants of health, as are other—

**Mrs Haslam:** Housing and jobs.

**Mrs Caplan:** That's right: housing, jobs. We know how important the right mix of all of those components is to an individual's health, so it might be more appropriate to deal with transfer recipients and the notion that hospitals are a segment of the health transfer payment.

**Mr Carr:** Just from my standpoint, I like the way they're listed in the table of contents there, with the "Social Issues" and the "Transfer Recipients"; I think Elaine also even did it under the transfer recipients. She's got it in alphabetical order, like MUSH, like we call them, with municipalities first, universities, schools and then hospitals last. So I think the way it's done is perfect there.

**Mrs Caplan:** In fact, the transfer recipients are

different because hospitals are a transfer partner, a transfer agency, of the Ministry of Health, but there are many programs in the social service sector that also receive what is effectively a transfer from government but are not considered a transfer agency under the MUSH heading. I think it's important to differentiate between the two, particularly when you're talking about a sector, I guess. So if it could be clarified that hospitals are a transfer agency but they are just one component of the Ministry of Health—

**Mrs Haslam:** Or the health sector.

**Mrs Caplan:** Or the health sector.

**Mrs Haslam:** They are one part of the health sector.

**Mrs Caplan:** They're just one part of the health sector, that's right. An important part, I'd add.

**Mrs Haslam:** But so are companies that manufacture health implements to export. They're also part of the health sector. It's multipurpose.

**Mrs Caplan:** That's right. Providers of assistive devices, the drug companies. Certainly the professional organizations, and we heard from several of them. I think to ignore the Ontario Nurses' Association or the Ontario Medical Association in your discussion of health because you were talking hospitals would be absolutely inappropriate.

**Mrs Haslam:** Absolutely. I agree.

**The Chair:** If there are no further comments with respect to the social issues, then we'll continue with "Transfer Recipients."

**Mrs Caplan:** I thought we did that.

**The Chair:** No, we just did "Social Issues," and we're now dealing with "Transfer Recipients." Indeed, there are overlaps among many of these headings, as we've all come to understand. However, with respect to transfer recipients, Ms Campbell?

**Ms Campbell:** I had some questions or issues to be resolved under the heading "Transfer Recipients." The MUSH sector representatives came from a variety of areas of activity, but there were several common themes that emerged during their presentation. We've listed some of those there: the need for stable and predictable funding, federal transfers, the social contract, the need to keep abreast of new technology and the need to respond to demographic changes.

My question is, do the members wish to discuss the MUSH sector in terms of common themes or do they wish to examine them individually, with perhaps an introductory paragraph making reference to common themes?

**Mr Sutherland:** I guess maybe both in some ways. I think the common themes need to be elaborated upon, though. I don't know if we can just do that in one paragraph.

The major changes: the one other issue that I had noted is I don't know whether the title "Restructuring" is appropriate or not to put in there as another category, but that whole system of how all those agencies are going through major organizational change, governance etc, the review of all that needs to be dealt with.

So I would think under those general themes that you've outlined, and then what I would say is do the general themes first and if there are some other additional issues specific to the individual group, which I think were raised, then they should be highlighted. But I'd probably want more emphasis on the general themes and then less on the individual recipient issues.

**Mr Carr:** I have no problems with the ones Elaine outlined. My big concern is including in all of them the social contract, because each of them is going to be affected. The ones Elaine listed are fine with me as well. Hopefully, we wouldn't add any more, because the ones you listed I agreed to, but they weren't everyone you'd listed in the table of contents. I don't know if you had them jotted down separately; I agreed with those ones.

From my standpoint, a particular emphasis on the social contract with all the transfer recipients and what they said is going to happen at the end of that I think is a big, big problem because, as we all know, sitting around the table, whoever has to deal with that one, that's going to be extremely difficult. I think each of those transfer partners should include—from my standpoint, the most important is the social contract, but I would agree with the other ones that you listed, Elaine.

**Mrs Caplan:** I also think that while there are some common themes, there are some important differences. I think the report should recognize the fact that restraint at the provincial level in the budget can have the kind of effect on municipalities and on school boards which, unless the province is careful, can result in, and frequently does, higher municipal taxes. We discussed earlier the fact that there is one taxpayer and that as an approach we are advocating—certainly our caucus is advocating—that there should not be tax increases at any level. Therefore, as the budget is established the province should be cautious, because they would not want to have a negative effect upon the property taxpayer.

One of the last presenters, the shopping centre owners, talked about the detrimental effect property tax is having on shopping malls across the province. Because municipalities and school boards are funded in varying degrees, not only by transfers from the province but a large portion from the property tax, I just think we should note that there are some differences between them and the universities and community colleges and hospitals which, while they may have private fund-raising endeavours, do not have the taxing ability.

**The Chair:** Any further comments? Ms Campbell?

**Ms Campbell:** I think I'm fairly clear on it.

**The Chair:** That, I presume then, concludes our necessary direction to Ms Campbell with respect to report writing. However, we may want to know when there will be further information coming forward from the research officers with respect to information that was compiled only this week—earlier this week, I should say.

**Ms Campbell:** I had some discussion with the clerk earlier this week with respect to time frame. My question to the committee members is the date when they would like to receive the report. The committee is coming back on February 28 to begin discussions of the draft report.

Would the committee like to have the report available for study over the weekend preceding that or would receiving it on the Monday before the 28th be acceptable?

**Mr Kwinter:** What day of the week is the 28th?

**Ms Campbell:** Tuesday.

**Mr Wiseman:** Budget day.

**Mr Sutherland:** Maybe. I can say this, not writing it, that if it's possible, I think, if folks could have it Friday, that would probably be good, the Friday before, to give them more time to go over what's in it, preparing for the Tuesday.

**The Chair:** If I could offer a suggestion. Not to be in conflict with any of the direction of the committee members, however, the report, as it will be written at that point in time, will be something that we all will have had our input into today. As we peruse that, we will only be confirming that we're in agreement with the way the report has been written. I guess from time to time research officers do work on weekends. However, if we were to have that report available to us on Monday, February 27, would that not be enough time for committee members to—

**Mrs Haslam:** The problem with that is that some of us are farther away from Toronto than others.

**Mr Wiseman:** UPS delivers.

**Mrs Haslam:** Yes, but one little glitch and I don't get it till late on Monday night, and if I'm not even in Toronto, then I don't get it till Tuesday morning. I don't think that's fair. I would rather have it on the Friday so I have some opportunity of receiving it in the constituency office or at least know that I have a day to get it before I end up in a committee meeting.

**The Chair:** Well, if it's the will of the committee that we have it on the Friday prior to our meeting on Tuesday, then we'll give that direction to Ms Campbell and wish her the best of luck.

**Ms Campbell:** That means that it would go to the clerk's office by noon on Thursday.

**Mr Sutherland:** Oh, because she has to have some time to copy? Oh, that's the problem.

**Mrs Haslam:** I'm not asking the impossible. I know that four days is not a lot of time. It's just that all too often when these things are distributed and they go to a Toronto office, I don't come into Toronto until it's time to come into committee, and so it could be a problem for me receiving it. That's all I'm saying.

**Mr Sutherland:** If it's coming to your Queen's Park office, you'd like to have it here by Friday at noon because, given what time the courier service goes out, if you're going to be in your constituency office on the Monday, they could still get it out and you'd get it Monday morning to have some time to deal with it.

**The Chair:** Okay, then I guess the directions are clear, that we'll expect it on Friday. It will be required by the clerk on Thursday, and that will allow Ms Campbell three days to write it.

This committee stands adjourned until Tuesday, February 28 at 10 am.

*The committee adjourned at 1613.*











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*\*In attendance / présents*

#### **Substitutions present/ Membres remplaçants présents:**

O'Connor, Larry (Durham-York ND) for Mr Lessard

Wessenger, Paul (Simcoe Centre ND) for Mr Jamison

**Clerk pro tem / Greffière par intérim:** Grannum, Tonia

**Staff / Personnel:** Campbell, Elaine, research officer, Legislative Research Service



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ISSN 1180-4386

## Legislative Assembly of Ontario

Third Intercession, 35th Parliament

## Assemblée législative de l'Ontario

Troisième intersession, 35<sup>e</sup> législature

# Official Report of Debates (Hansard)

Tuesday 28 February 1995

# Journal des débats (Hansard)

Mardi 28 février 1995

**Standing committee on  
finance and economic affairs**

**Comité permanent des finances  
et des affaires économiques**

Pre-budget consultations

Consultations prébudgétaires



Chair: Paul R. Johnson  
Clerk: Lynn Mellor

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## LEGISLATIVE ASSEMBLY OF ONTARIO

## ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON  
FINANCE AND ECONOMIC AFFAIRSCOMITÉ PERMANENT DES FINANCES  
ET DES AFFAIRES ÉCONOMIQUES

Tuesday 28 February 1995

Mardi 28 février 1995

*The committee met at 1002 in room 151.*

## PRE-BUDGET CONSULTATIONS

**The Chair (Mr Paul R. Johnson):** All the members should have with them today the report from research. There are two additional pieces of information. One is from the treasury board and is signed by Bob Christie; the other is from Elaine Campbell and includes some information that was not on the report that was sent to your office prior to the weekend past.

I'm in the hands of the committee with respect to how you want to proceed. You've all had a chance to look over the report. You haven't, I know, at this point in time had a chance to look at the additional points for consideration to the draft report.

**Mr Kimble Sutherland (Oxford):** I think probably the best way to proceed is to just go through page by page and work through it that way in terms of whether members have comments on anything or they want a clarification or things they want changed, added etc.

**The Chair:** Are the members in agreement with that?

**Mr Gary Carr (Oakville South):** Yes.

**The Chair:** That sounds positive, and we could start with the draft of the pre-budget report that you received prior to last weekend. I suggest we turn this over to Ms Campbell to take us through this report.

**Ms Elaine Campbell:** Page 1 of the report is the introduction. During the session on February 16 the members were agreeable to the introduction as it appeared in the proposed outline. They also agreed to the addition of a paragraph in the introduction that would summarize the tone of the hearings. There is a proposed addition to the final paragraph at the top of page 2 of the memorandum that was distributed this morning. I'll read that into the record:

"Witnesses presented the members with a tremendous challenge; namely, the development of an environment conducive to investment and the creation of jobs, that responded to the changing demands being made of our workforce, was sensitive to the needs and aspirations of members of all segments of society, and preserved the key elements of our social and health care networks."

**The Chair:** Is everyone agreeable to that introductory statement?

**Mr Monte Kwinter (Wilson Heights):** I have one concern, and that is when you say "was sensitive to the needs and aspirations of members of all segments of society." Unfortunately, I don't think there is a document that can be produced that is going to be sensitive to all

segments of society. I would like to have some kind of qualifier in that, "will attempt to be sensitive" or something of that kind. But to prepare a document that is going to absolutely meet the aspirations of all segments of society is a task that is beyond the capability of mortals.

**Mr Sutherland:** What if we used the words "different segments" rather than "all"?

**The Chair:** It doesn't say it solves all the needs and aspirations of members of segments of our society; it just says "sensitive to." I guess that's open to a lot of interpretation.

**Mr Jim Wiseman (Durham West):** Maybe we should make it "all segments" and leave it at that.

**Mr Kwinter:** I just think it's so all-inclusive that there's no document that could meet that criterion. It would be great if we could do it, but I just don't think that we can.

**Mr Sutherland:** I think if you put "different segments of society," it puts the same intent across, that there are different needs and aspirations of different segments of society, without implying that we're going to be able to satisfy all of them.

**The Chair:** Is that agreeable? It appears that it is.

**Ms Campbell:** Is it my understanding, then, that the rest of the introduction is acceptable to the committee members?

**Mr Sutherland:** Just one thing: I think we had all indicated we wanted some comment that the presentation should not be considered as all-encompassing or covering all areas. I'm not sure whether we had asked for that to go in the introduction or elsewhere.

**Ms Campbell:** That had been asked for in the section on sectoral issues, but if it's the committee's wish to include it here as well, that can be done.

**Mr Sutherland:** I guess if it's in the sectoral issues, that's fine. Okay.

**Ms Campbell:** To move on to the next section, "Economic Summaries and Forecasts," that has been divided into a number of areas, the first being the past year, then a general section summarizing the comments that the various forecasters made on the provincial budget deficit and debt, plus a section on other themes that were touched on by the forecasters, and then a final section on the future which includes the caveats that some of the forecasters attached to their particular forecasts as well as discussions of individual variables such as real growth, employment and unemployment.

**The Chair:** Any comments from the committee members?

**Mr Sutherland:** On page 2 in the last paragraph it says, "Ministry figures indicated that 186,000 new full- and part-time jobs had been created." I'm wondering if we could make reference that the ministry cited Statistics Canada figures, because that's really the source for those figures.

**The Chair:** Any further comments?

**Mr Wiseman:** Are we on page 4, or should I wait until we get there?

**The Chair:** It depends on what Mr Phillips wanted to—

**Mr Gerry Phillips (Scarborough-Agincourt):** Yes, it's on page 2: "According to the Minister of Finance, employment growth in 1994 was the strongest it had been in six years." The actual numbers from the documents that we got indicate that the growth in 1994 was actually a little bit lower than it was in 1993. I'm just wondering how we reconcile those two things.

**Mr Sutherland:** I think the terminology should be "fastest job growth," which I believe is from the slide.

**Mr Phillips:** I was just going on the charts that show, I think, 79,000 jobs and then—

**Mr Sutherland:** Yes, but I also think there was reference in the slides, the February to—the 186,000 statistic is the one that that's making reference to in terms of being the fastest job growth since 1988.

1010

**Mr Phillips:** Yes. I guess it's just that we conveniently leave a month out in the one and—

**The Chair:** You would like that month noted, then, I presume.

**Mr Phillips:** I think we're going to say employment growth in 1994 was the strongest, that that actually is inconsistent with the numbers we got from the ministry people.

**Ms Campbell:** I was using the chart that was included in the ministry's presentation which showed the 186,000 new jobs.

**Mr Phillips:** But that isn't 1994; that's since the beginning of February, I think.

**Ms Campbell:** So your concern is that it doesn't cover the entire year, just the final 11 months?

**Mr Phillips:** Yes. I just use the numbers that we get from them which show year-over-year growth.

**Ms Campbell:** So would you prefer, "Employment growth from February to December 1994 was the strongest it had been in six years"?

**Mr Phillips:** Yes, although there is an interesting point about just why 1994 was not as strong as 1993, which is a bit of a puzzlement to me actually, why job growth in 1994 was less than it was in 1993. It may be just sort of a statistical aberration, but that kind of stuck out like a sore thumb to me.

**Mr Carr:** The only comment I'm going to make, and it's very brief, because I don't want to get into political debate, is that the reason we had the highest growth

figures is of course, as you know, that during this recession we lost more jobs than anybody else; 80% of the job losses in the 1990 recession were in the province of Ontario. In the last recession it wasn't that high. So obviously, when you come out, the growth rates are going to look better.

I know the government wants to spin this, but the fact of the matter is that we lost more jobs in this recession than any other province. But I'm prepared to leave that in anyway. Quite frankly, the growth figures and the way the government's trying to spin it, I have no problem with that.

**The Chair:** Thank you, Mr Carr. You had a point, Mr Wiseman.

**Mr Wiseman:** I'd like to add a comment here about the reason that the recession was as deep as it was, because I would be looking for a recommendation later on. For example, I think we need to condemn the previous Tory administration in Ottawa for the high interest rates and the high dollar policy of 1988, 1989, 1990 and 1991. It was this policy of deliberately putting people out of work that drove the recession to the depths that it did, and I think we need to make a note of that.

The recommendation I would be making later on would be that the province of Ontario condemn future policy shifts that would move interest rates and unemployment higher deliberately. We all know the reason they do that is that they have this foolish notion that putting people out of work is the way to fight inflationary pressures. So I think if we're going to be talking about projections and about what's going to happen in the future in terms of economic summaries and forecasts, we need to indicate that the Bank of Canada rates and the high interest rate policies and the driving of the dollar up artificially must end and that we are looking at these strong figures as an example of what happens when there is a more realistic interest rate policy.

If you go back and look at the interest rates of, say, November 1993, you'll notice they were about 6% in terms of people being able to go to the bank and borrow money. Currently they're at 9.75% if you want to borrow money. It's this 3.5% to 4% difference that puts the growth of the economy in jeopardy in the future and it's only by having some reasonably intelligent administration of interest rates at the Bank of Canada, which we haven't seen in the last 15 years, that we will be able to get the unemployment rates down to an area where we can start to talk about full employment.

Also in this area, I think it's important that if we're going to talk about employment, we condemn at this time the federal Liberal government to have a policy of keeping at least 9% of Canadians unemployed as a policy to fight inflation.

I would be suggesting here that we need a wider description of the impacts of the cyclical nature and the impact of interest on the economy and how it can drive the economy into a deep, deep recession when there isn't any consideration given to the impacts of the high interest rate policy.

**Mr Carr:** Very briefly, I was going to allow the spin



that the government wanted in there. With Mr Wiseman being political, and I'm not going to get into the debate—

**Mr Wiseman:** I'm not being political; I'm being factual.

**Mr Carr:** Whatever. I can't agree to the last paragraph on page 2 or the top of page 3. That has to come out, otherwise we don't agree with it.

**Mr Sutherland:** I agree with my colleague that I think we need to deal with the issue of the interest rates and certainly their impact—

**Mr Carr:** Are you going to make a note of that?

**Mr Sutherland:** My only suggestion would be that it probably doesn't fit in terms of the overall themes that you've developed here on pages 2 and 3. It probably fits in better as we get into some of the other sections in here—I'm trying to think whether we have one specifically—specifically the one on page 9 regarding issues of interest rates and where they are. Since the theme on page 2 is what has occurred in the past year, and we didn't really give direction to go back and go through all the history of the recession, I would suggest that we deal with that through page 9 in the interest rate section.

**Mr Wiseman:** I'm not averse to dealing with it a little later on, but I think on page 3, where we talk about debt and deficit, we would also have to look at the impact of the interest rates on the borrowing and the increase in the cost of borrowing. On page 5, we have comments here that seem to indicate that the interest rates are being driven by foreign rate premiums. That's not the fact. That's not the case. That's another mythology. On the bottom of the page we have comments as well.

I would actually see that there would need to be changes in the document with respect to interest rates prior to page 8, where I do see that we'll need some changes, and also on page 9. I'm not averse to leaving it until we move further along, but I would like to see comments in here about the absolutely destructive nature of the Bank of Canada's policies and what that means to the economy of Ontario and to the debt burden that we have to carry in the province of Ontario and at the federal government.

**Mr Phillips:** I guess if there's anybody who should know about the cost of borrowing, it would be the Ontario government, because it is the world's biggest borrower outside of sovereign countries and also, as we all know, has won at least two awards for being the best borrower in the world. I think the Ontario group that does the borrowing understands that it has to compete for Canadian dollars around the world with the interest rates, and what happens to Ontario is that because of the very high federal debt and the very high provincial debt, we're paying a risk premium and that's what's driving the high interest rates.

Nobody, as I say, knows it better than Ontario, because it borrows money all over the world and it has to compete all over the world for people to invest. They know that what drives those interest costs up is competing around the world and there is a risk premium attached to loaning money to Ontario. There are no two ways about that.

We may want to get into some details about what's happened to the deficit since 1990, what's happened to the accumulated debt, what's happened to the interest costs that we're paying in Ontario, what our debt servicing costs now are versus what they were five years ago. Maybe we should get into some of that detail, if it's of interest to Mr Wiseman.

1020

I think what we'll find is that the interest costs that we're paying are dictated by the international markets, and they're demanding a premium because they don't like the credit risks. We now have seen Ontario's credit rating go from AAA to one downgrade, AA+, a second downgrade, AA, a third downgrade, AA-. Every time that happens, according to the ministry officials, our interest costs go up and we pay more money, and we're right on the edge of another downgrade. That's what's driving the very high interest rates that Ontario's paying to service its debt. It has been the province that's had the most downgrades in the last four years. Some other provinces actually have had their credit ratings upgraded, but we've had three downgrades, and every time that happens it drives our interest costs up.

Maybe we do need some more detail on all of that in this document so that the readers can understand how much we're paying for debt interest, what's happened to our debt, both the amount of debt that's on the government books and the amount of debt that's hidden away in the crown agencies that we have to service as well.

**Mr Carr:** Just very briefly, as I talked about earlier, most of the job losses in this recession, 88%, have been in Ontario. I was willing to give the government the page 2 spin that it wanted, with the increased jobs. Now that we have turned it political, in Mr Wiseman's comments, I just want to reiterate to the researcher that the last paragraph on page 2 and the top on page 3 has to come out, otherwise we will not agree with the report.

**Mr Donald Abel (Wentworth North):** So?

**Mr Carr:** So it's coming out. I just want them to know that.

**Mr Wiseman:** No, it's not coming out.

**Mr Carr:** It is, in the report; otherwise we won't agree with it and we'll do a minority report.

**Mr Abel:** We'll vote.

**Mr Wiseman:** We'll vote on it then.

**Mr Carr:** That's fine, we'll have the vote on it and then we'll do the minority report.

**Mr Wiseman:** You're going to do your minority report anyway.

**The Chair:** Order, please. We seem to have a little disagreement with respect to whether we want certain parts. We have a disagreement with respect to certain parts of this report. I think it's an appropriate time at this point in time to put the question to the members with respect to the last paragraph on page 2 and, I believe, the first paragraph on page 3. I'd like to get some opinion that will resolve this, so I'm going to put the vote to the members who are here.

All those who would like to have those paragraphs as

they are—and there has been some indication to amend them in fact, but if you are familiar with some of the changes that I believe were agreed to with respect to those two paragraphs, I would like to know those who are in favour of keeping those paragraphs in the report.

All those in favour?

**Mr Carr:** Can we record the vote? Is that possible?

**The Chair:** Yes, that's possible.

All those opposed? We don't have the clerk here at the present time. However, if it's not inappropriate, I will, for the purposes of Hansard, call out those members who have voted in favour. Would you like me to do that, put that on Hansard?

**Mr Carr:** Yes.

**The Chair:** All those in favour? We had Mr Sutherland, Ms Haslam, Mr Lessard, Mr Abel and Mr Wiseman.

All those opposed? Mr Kwinter, Ms Caplan, Mr Phillips and Mr Carr.

We'd like to proceed now back to Ms Campbell.

**Ms Campbell:** Since those two paragraphs are going to be included in the report, is it my understanding that the committee would like some reference in the second paragraph under the past year to Statistics Canada?

**Mr Carr:** On a point of order, Mr Chairman: Just so people know, in the past what would have happened is that we would have agreed on the content of the report. Because of the changes that are now coming out, we won't even be supporting the final report that comes in. I just want to make that clear. That's how it works in terms of procedure. We will vote on the whole report then at the end.

**The Chair:** Thank you, Mr Carr. Of course, you know that those parties who are in opposition to the report can submit a dissenting opinion. For the purposes, again, of Hansard and all those people who might be watching the program at this time, I want to tell you that the government was successful in keeping those two paragraphs in the report. They won the vote, and I'd like to now turn it back over to Ms Campbell, with respect to those prepared drafts, I would assume.

**Ms Campbell:** The bottom paragraph on page 2 made reference to "Ministry figures indicated that 186,000 new full- and part-time jobs had been created." Mr Sutherland had requested that there be an additional reference to Statistics Canada. As far as the third line in that particular paragraph, "According to the Minister of Finance, employment growth in 1994 was the strongest it had been in six years," does the committee want a slight change in the wording, "According to the Ministry of Finance, figures on employment growth from February to December 1994 were among the strongest they had been in six years"?

**The Chair:** Everyone's in agreement with that then?

**Mr Carr:** It doesn't matter now. We're going to vote against the whole report anyway, so you may as well just write it the way you want.

**The Chair:** I understand that, Mr Carr.

**Mrs Karen Haslam (Perth):** Oh, Gary, lighten up.

**Mr Carr:** I didn't start it. I was going to let it go in in the beginning.

**Mrs Haslam:** You started it.

**Mr Carr:** I did not. I let it go in. I was going to give you the whole thing you put in there.

**Mrs Haslam:** It's just picky men.

**The Chair:** Order, please. We would like to proceed with some reasonable semblance of order with respect to dealing with this report and, as I indicated before, those who are opposed to the final outcome of this report may include a dissenting opinion. I just remind you that you have that opportunity and certainly you would indicate that you disagree with the report and you would have some statement to make that would be your own.

**Mr Phillips:** The numbers I have indicate that in 1994 Ontario still had about 84,000 fewer jobs than it had in 1989, and the rest of Canada was up about 240,000 jobs. That may be a point worth noting just in terms of continuing to recognize that, even though in 1993-94 we saw reasonable job growth, we still actually have fewer jobs in Ontario in 1994 than we had in 1989 and the rest of Canada has gained about 240,000 jobs.

**Mr Wiseman:** I don't think that's accurate, Gerry. I think we're only 45,000 jobs behind where we were.

**Mr Phillips:** I just go on the numbers that the government provides us.

**Mr Wiseman:** Those numbers are old. I have numbers from December, Jobs Ontario secretariat, that indicate we're up around 4,935,000 jobs as of December, and I think the numbers in that report are slightly lower. I believe that number is slightly ahead of where it was, where we projected it to be.

**Mr Phillips:** The government produces 1989 numbers, 1990, 1991, and I just take 1989 and—

**Mr Sutherland:** We do have a section in the report talking about employment and unemployment, so maybe we could elaborate a little more on the points that people want to make during that section.

1030

**The Chair:** Moving along then, we'll ask Ms Campbell to take us further into the report.

**Ms Campbell:** Page 3 continues the heading, "The Past Year." Do the committee members have any concerns about any of the other paragraphs in that particular section?

**Mr Sutherland:** Yes. The second paragraph, the last sentence, "The minister also said that consumer confidence in 1994 was the highest it had been in five years." I believe that we heard from the Conference Board of Canada that business confidence was at a record high as well. So that probably should be cited in that paragraph as well.

**Mr Carr:** I was going to get into the debate on that. I don't even remember them saying it. I would just like to leave it as the ministry, because I think the ministry is going to say and do whatever it wants. This report's going to reflect that. So I'd leave it as it is.

**Mr Sutherland:** If I could, of course the minister made reference to consumer confidence. We're talking



about investments in machinery, equipment etc, and the Conference Board cited about business confidence, so I think as an extra sentence, since we're talking about that, that issue of confidence out there, it's appropriate to make reference to that.

**Mr Carr:** I don't know what the Conference Board is saying, but all I know is that consumer confidence is not strong out there. People are afraid of losing their jobs; they are not spending. We can get into a lot of detail of why they're afraid of losing their jobs, probably because of the fact that unemployment, in spite of all the jobs being created by this government—all I know is they keep creating more jobs, they say, and the unemployment rate keeps going up. That's all I know, and it's up dramatically versus 1990 when you took over.

I can't agree to have that in there, because I'm telling you, consumer confidence is not strong in the people I talk to, and if you believe that, then why in the heck aren't people spending? They're not spending because they're afraid for their jobs. Some businesses are spending in investment, particularly the auto sector, which has done well, but I want to tell you, if you're talking about consumers, consumer confidence is not, because of the fact that they're fearful for their jobs.

All you need to do is take a look at the housing market, where people are not buying. One of them is interest rates; the other is the fact that if they do have a job, they're afraid of losing their job. Consumer confidence in this province is not strong, and I could not support anything in the report that says it is because you'd be absolutely wrong if we put it in there.

**Mr Sutherland:** If I could just say again, the nature of these reports, and certainly in this section, is to try to reflect what the different presenters said. I know Mr Carr has his personal opinion that both consumer confidence and business confidence are not high. As to the sentence here regarding consumer confidence, I indicated the minister said that. I assume, in terms of the minister making his presentation, he was probably citing some source, not just his own personal opinion. As you know, these things are—

**Mr Carr:** Political spin doctors probably.

**Mr Sutherland:** No, no. I'm sure he was citing one of the surveys that was done regarding that. However, that was his comment regarding consumer confidence, the Conference Board mentioned about business confidence, and I was asking for one more sentence to be put in. If Mr Carr feels at the end of it he wants to provide some comment on his personal opinion, I would suggest he has the option of doing that in the report that his caucus may want to submit.

**Mr Carr:** Just so everybody knows, what we've done in the past is we tried to get some consensus on the report so everybody agreed to the report we did and then we had our own dissenting reports on it. What's come out—and again, I was going to give you some of the spins on it, until we started getting into all this political baloney, and I guess after last night's budget I should have expected it. I guess the Premier's in the media studio doing that now.

But just so everybody knows, historically what we've done is agreed to the report, but with these things being in it I cannot, and what we'll do is we'll go through it, we'll vote on this and I'll vote against that and at the end of the day we're going to vote against the entire report, so there won't be a consensus. I think that'll be the first time I've sat on there that there wasn't a report where there was a consensus of the committee on the things we could agree with, because I can't agree with that.

I think ultimately it's up to the consumers out there to decide, not me or the Minister of Finance, whether consumer confidence is up, and they'll get a chance to do that when the election comes, very shortly. So let's vote on that. I can't agree to having that put in there. If you want it in it, let's vote it and we'll vote against each of them and then ultimately we'll vote against the entire report.

**The Chair:** Thank you, Mr Carr. I would like to remind the committee members that the research officer has compiled the information that was made before this whole committee and has edited it to the extent that it's more concise, but the information is still, I believe, accurate. As we're dealing with this report as it's prepared for us at this point in time, I think all we want to do is agree with the information that was brought before this committee by all those deputants and come to some agreement with respect to that.

I think it would be inappropriate at this time to inject our own personal opinion with respect to how we see the finances in the province of Ontario. What we want to do is to have this report basically agreed to by the members of the committee as being the information that was shared with the committee by those people who made the presentations before us. Wouldn't the committee members agree with that?

**Mr Carr:** I just cannot agree to a report which says consumer confidence is high in this province. If I did that, I would be lying. It is not, in my opinion, and part of the report we are doing is going to be the consensus of this committee. If the consensus of this committee is that consumer confidence is high in this province, they are wrong and I cannot support it and will not be in support of it. Notwithstanding what the Conference Board said, notwithstanding what the Minister of Finance said, if they believe consumer confidence is high in this province they're wrong and I will not be supporting it.

**Mrs Haslam:** It was said. You don't have to agree.

**Mr Sutherland:** I can guarantee you there are going to be comments in this report that were made by presenters that I don't agree with. That is the reality of the process we go through.

**Mrs Haslam:** Right. It was said.

**Mr Sutherland:** Exactly. It was stated; it was said. I know there are surveys done, not by the Ministry of Finance but by individual survey firms, that indicate consumer confidence in 1994 was the highest it had been in five years.

I know Mr Carr may not agree and he may hear individual comments that would lead him to believe otherwise, but in terms of citing that, that is not the

minister citing his personal opinion. I don't have the exact source here, but I'm sure he is citing one of the survey firms that measure that and just reflecting that. The Conference Board of Canada is known as a firm that does regular surveys on these issues and it also mentions that business confidence is at a record high.

If Mr Carr and the Conservatives want to dispute those surveys, they certainly have the option of doing it at the end, but I don't think that—

**Mrs Haslam:** Agreeing or disagreeing now is a waste.

**Mr Sutherland:** —at this time we need to have a lengthy debate and certainly not a vote as to whether that was what was said before the committee or whether we exactly agree with all the comments that were made by all the presenters, because we know we're not going to get a consensus on agreeing with everything that was stated by all the presenters.

**Mr Carr:** One quick point, because I don't want to go on: The problem with what you say is that it's the highest it has been in the last five years. The problem is that we started so far behind; same with the job creation. We lost more, so when you create them there are going to be more when we come out of the recession. That's the spin you wanted and I was prepared to give you the spin; I can't give you that spin now because it is wrong.

Obviously, when the consumer confidence was as bad as it was earlier on, it is improving versus what we were at, which was an all-time low. I want to tell you that what we're attempting to do in this report is put the NDP spin on it. We've lost more jobs than anybody else, so when we do create more coming out of the recession, they try to take credit for it. They blamed all the job losses on other levels of government and high interest rates on Brian Mulroney, and then when the jobs are created they try to take credit for them. You can't have it both ways. If you want that in the report, then we are going to have to have a vote, because I cannot support saying the consumer confidence is high, because it is not.

**Mrs Haslam:** You're not saying it.

**Mr Carr:** The only thing I'm saying is that what may help consumer confidence this year is the fact that we're going to have an election—

**Mrs Haslam:** This isn't a report about what you're saying, Gary.

**Mr Carr:** —and you guys are going to get booted out. That may do more than anything else. But I can't support it and I'll vote against it. We should have a vote on it.

**Mrs Haslam:** We're not saying you're saying it. You didn't say it.

**Mr Wiseman:** I'm trying to determine where Mr Carr is coming from on this. Sales of automobiles are up. Pre-Christmas sales in the retail market were up. They're up to the extent that there's an increase in revenue both at the federal level and at the provincial level. It seems to me that to say in the report that consumer confidence is at the highest it has been in five years is not untoward. All the indicators would indicate that.

**Mrs Haslam:** It's not us saying it. It's what was said before us.

**Mr Wiseman:** To tell the Treasurer that this is not the case, to tell the Treasurer that in the face of all the numbers he is looking at in terms of increases in sales, increases in jobs and increases in revenues is not the case flies in the face of what the report is all about. I guess the Tories would like to have a pessimistic spin to this document, but in fact what we've heard from people, from the Conference Board, from retailers, except for the Ontario Restaurant Association, they have all indicated that they had a better year, one of the best years in a long time.

1040

**Mr Carr:** This is the worst they've ever had.

**Mr Wiseman:** I think we should have this in the report to reflect that things have improved. I don't know where he's coming from.

**Mr Sutherland:** Maybe as a way of resolving this, you will recall on page 2 I suggested the Ministry of Finance figures indicated the 186,000, that we make reference that it's cited. The 186,000 was a StatsCan figure. Maybe either we could keep the sentence as it is and ask for a footnote to have the ministry provide what source it was using for that basis or, if we could find that source, have it indicated that the minister used this source that said consumer confidence was the highest it had been in five years.

**Mr Carr:** Mr Wiseman asked where I'm coming from on this. I thought it was clear. Where we're coming from is that consumer confidence, as a result of the 1990 recession, which was historically the highest we've ever had, was the worst we've ever had during that recession, so of course it's improved as we've come out of the recession. All I'm saying is that the problem is where we're starting from, and where we're coming from is that consumer confidence versus where we've been in the past is still at an all-time low. It's better than it was a few years ago, but the fact of the matter is that we're coming from historical lows in consumer confidence. You're trying to put the spin on it that everything's great and consumers are confident out there. They are not. They are versus what happened in the 1990 recession, but consumer confidence is not strong.

That's where I'm coming from on it, very simply, the same as your job figures. We started from so far back in the job losses that when jobs are created—as I reiterate again, what this government is trying to do is blame all the problems of the 1990 recession on other governments, the federal government and interest rates, and then it tries to take credit when the recession ends and the jobs come, and the same with consumer confidence. The tax increases they put in their budgets helped depress consumer confidence. Going back in the last two budgets with the highest tax increases we've ever had, that ruined consumer confidence, because any of the people who were working got a tax. In my region, somebody working at the auto plant, at Ford Motor Co, making \$50,000 got a surtax put on him. What do you think that does to consumer confidence? Now you're saying as we come out of the recession that consumer confidence is up and you're trying to take credit for it? I'm sorry, I can't do it.

Again, we're going to have to vote on this, because if



you want to put it in there, I'm not going to put it in there and we'll vote on each and every line that you want to put in there. I cannot say that consumer confidence is high unless you want to put "versus an all-time low" which was in there as a result of the NDP being in power. So I can't agree to it. Let's move on and vote on it. You guys can vote to put it in and I'll vote to not have it in.

**The Chair:** Two things: (1) I think it would be helpful if we moved along, and (2) if you'd like to vote on anything, I'd like the committee members to put it in motion form so that both the Chair and the clerk understand exactly what it is we're concerned with so that we don't make any errors with respect to that.

**Mr Carr:** On a point of order, Mr Chair: Do I have to put a motion to take it out or do they have to have a motion to put it in?

**The Chair:** Well, however you would like to amend the report.

**Mr Carr:** It's up to you.

**The Chair:** You indicate very clearly—

**Mr Carr:** I'm asking the Chair. You're the Chair. How do you want to do it? I don't know. Procedure-wise, what do you do? That line that says the minister says consumer confidence is the highest—

**The Chair:** If you'd like to move to delete, you can say so, Mr Carr.

**Mr Carr:** I'll move a motion to take that line out then.

**The Chair:** What line?

**Mr Carr:** "The minister also said that consumer confidence in 1994 was the highest it had been in five years." I think it should be struck out. Let's vote on it and move on.

**The Chair:** Any discussion on the motion? Mr Phillips.

**Mr Kwinter:** My name is Kwinter.

**The Chair:** Mr Kwinter. I'm sorry.

**Mr Kwinter:** I have a problem with this whole discussion. If this were a generic statement that was made in the report, I think anyone could take issue with whether or not it reflected their particular position. I think the provisions for presenting a dissenting report are there. To rewrite history—"The minister also said that consumer confidence in 1994 was the highest it had been in five years." You may agree with that or you may not agree with it, but you can't disagree that he said it. That's what he said, and what this is reporting is that he said it. There are lots of things that people said during this particular hearing that you may or may not agree with, and that is why there's a provision for putting in a dissenting report.

But I think it's important that we understand what the process is. In my view, the process is that we are a standing committee of the Legislature to hold public hearings to gauge the positions of a wide variety of people in various sectors in our community and present this report as a guide to the Treasurer when he crafts his budget. To suddenly rewrite what people have said and to say, "Well, no matter what he said, I don't agree with

it," I think does everybody a disservice, particularly when we talk about the Treasurer, who is a political being. We are all politicians and we will have ample opportunity to take issue with some of his assumptions. But to deny that he said them or to say we can't put in what he said I think distorts the process and creates problems that we'll have to go through this whole thing, because then you have to evaluate what everybody said and whether you agree with what they said or not.

I say there's ample opportunity to do that, and that is basically why you have those dissenting reports, so you can take issue with some of the things that people have said. But I think our role is to present as fairly and as impartially as we can to the Treasurer what people told us. We then have to make some recommendations, and those recommendations again will differ depending on where you're coming from both fiscally, philosophically and politically.

**Mr Carr:** If our role is to advise the minister, which I agree, then why are we quoting the person we're going to advise? We're quoting somebody. This report is supposed to be for him and our report is quoting him.

What this report has become is a political spin for the government. If we're going to report and advise the minister, and if that's our role, and I agree it is, then why are we quoting him? What I'm saying in this is this document has been written and we shouldn't be quoting the minister in it. If it's to advise him, why are we quoting the person we're going to advise? It should be taken out, as simple as that.

But I don't want to spend a whole lot of time on it. Obviously, we're going to disagree and we could be here for three weeks. I know I've spoken the most on it, so let's come to some agreement. I don't think it should be in there. Let's not spend a whole lot of time wasting it, other than the problem is, if we don't, then every time I disagree, we're going to have to have a debate of why I disagree on it. But let's not spend a whole lot of time. Here we are advising the minister and we're quoting him. That's stupid and it's wrong.

**The Chair:** If it will be helpful with respect to the proceedings over the next couple of days, I think maybe we should resolve how we're going to deal with this once and for all, most certainly with respect to this.

**Mr Kwinter:** If I could respond to Mr Carr's concerns, when you have pre-budget hearings, you have to have some basis for all of your deliberations, and the basis is the financial projections that only the ministry of the treasury has. They're the only source. We have no ability to say, "Well, we think it's going to be this, that and the other thing," other than various presenters who make their presentations. What we have to decide is whether or not the projections, the assumptions that are being made by the ministry of the treasury, square with what other people are telling us. So we have to have that basis, and I think it's absolutely critical. It makes no sense to say, "Why are we quoting the Treasurer?" I'm saying you have to quote him, and then you have to take into account what other people have said and then you have to make your evaluation.

We're going to have a great, I assume, debate on the

auditor's comments. They are obviously not in accordance with the Treasurer's feelings. But our role is going to have to be to comment on those so-called discrepancies or what dissenting people are saying or what other people are saying. But I think the Treasurer has to put his position and then our role is to listen to the others and then make recommendations based on what we think is either the compromise or what we think is closer to reality. So I have no problem at all, and I think it's absolutely critical that we hear from the treasury and that that is part of our report, because that's the only basis that we have to either evaluate it, criticize it or support it.

1050

**Mrs Elinor Caplan (Oriole):** If I could just add to what my colleague has said, what I'm interested in is seeing that this report is an accurate reflection of what we heard. We will then have the opportunity to suggest recommendations which will be voted on at this committee, and if the report is not only not an accurate reflection but also doesn't present the kind of recommendations that we believe it should present, we have the opportunity, as members of the opposition, to write a dissenting report.

I think it's frankly misleading for the people watching to suggest that the fact something was said before the committee—if it was an accurate reflection, and Hansard has all of that, if that's what was said before the committee, it should be reflected in the text of the report. We can then say, "By the way, we think he's on another planet" and recommend that they not base their fiscal planning on that assumption because "they're out to lunch." We might want to phrase it a little more diplomatically, but that's what we could attempt to do in the recommendations part of the report.

I've served on a number of committees over the years and been part of pre-budget consultation and the text of the document, I agree with my colleague, is a reflection of what we heard, and frankly we heard a lot. You're not going to be able to reflect everything that everyone said. I think our researcher's done a commendable job in trying to condense it into a format that is tight and reasonably accurate. Where I would take exception is if there is something here which is not what is reflected in the Hansard. So I have no objection with an accurate statement contained in the report, even if I disagree with it, if that's what's reflected in Hansard.

Where I might have disagreement is if the suggestion of that is presented in a way to suggest that that is the consensus view when, in fact, it may not be the consensus view, but if it's an individual opinion, as the Treasurer's was or Mr de Bever's was, and so on and so forth, I think it's important that we accurately reflect what they had to say about the state of the province's finances and then get on with the tough task and the real debate about what the suggestions to the government are.

**The Chair:** Well, thank you, and I think that indicates that some members of this committee know exactly what it is we're supposed to be doing with this report—

**Mr Carr:** Mr Chairman, can I be helpful? I realize now, and I guess I should have with the numbers on there, that the NDP's going to get what they want in here anyway. I'll withdraw my motion and what I'll do is, the

things I disagree with I'll just comment on them as we go through so that we don't have to drag this out. I realize, obviously with the numbers, they're going to get in there what they want, they're going to get the minister's spin, notwithstanding the fact that we heard from so many presenters. I realize it is a political document, they are going to get their spin—

**The Chair:** Mr Carr, this is not a political document.

**Mr Carr:** Oh, no, it's not, Mr Chairman, this is not a political document.

**The Chair:** No, no, Mr Carr, this is not—

**Mr Carr:** Quoting the minister is not being political, saying, "All's great, consumer confidence is up." But in the interest of time—

**Mr Sutherland:** Check any pre-budget consultation report, the minister is always cited.

**Mr Carr:** —I'll withdraw my motion. Let's just move on.

**The Chair:** Thank you, Mr Carr. However, as the Chair of the committee, I'd like to just remind everyone that this is not a "political" document.

**Mr Carr:** Don't get me started or I'll go back again.

**The Chair:** This is—

**Mr Carr:** We were ready to stop and move on.

*Interjections.*

**Mr Carr:** Of course it's a political document.

**The Chair:** Well, you're not being helpful, Mr Carr, quite frankly.

**Mr Carr:** I'm being helpful; I'm withdrawing my motion.

**The Chair:** Well, in that case I'll take your advice at this point and we'll move on so that we can accomplish what it is we set out to. Mr Sutherland, if you insist.

**Mr Sutherland:** Well, no, I just wanted to get clarification on this paragraph because, if I am correct, Mr Carr's original motion, or what he wanted to put forward, was taken out this last line. I originally made a point about also at this time I thought it was appropriate to cite the Conference Board of Canada on putting what they said about business confidence being at its highest level, and it was at one of their charts. So I would still like to have that added to this paragraph.

**The Chair:** Thank you. I think the research officer has recorded that. Is the committee in agreement? It would appear so.

**Mr Wiseman:** I'd also like to indicate that the Royal Bank's presentation indicated that in terms of growth in the economy, after subtracting inflation, consumer spending shows that 1994 was a good year. Durables were up 3.2%, semidurables 4.6%, non-durables 5.2%. So these indicators clearly indicate that consumer confidence was better in 1994.

If you look at the purchase of North American light vehicles—there's another graph—it shows that 1994 was a good year. If you look at real business investment year-over-year percentage change, 1994 was a good year, in particular the last quarter. Housing starts weren't such a good year but consumers increased and contributed—not



as strongly as we would like—almost 3.2% or 3.1% to the expansion.

These are the graphs that we were supplied by the Royal Bank, so I think that there is a validity in having something in here indicating that consumer confidence has improved. If it's the minister's opinion that it was the highest in five years, the numbers that we got from the Royal Bank would indicate that it was certainly significantly better than it was prior to 1994.

**Mrs Haslam:** With all due respect to my colleague, I'd like to say similar to what my colleague Ms Caplan was saying that we're not rewriting Hansard here and we're not rewriting everything. We indicated to Ms Campbell that we didn't need a lot of different charts in here, that we didn't need to go over everything that's been presented. I understand Mr Wiseman has a lot of background in this and certainly that can be worth noting, but it's been noted in Hansard many times.

What we're looking at here is a generalization of some of the presenting, its themes. That's what we've asked Ms Campbell to do, to look at themes and to make some comments on some of those. So while it would be nice to indicate all of these indicators, I don't see the necessity. I think we've added something from the Conference Board of Canada, we have something from the ministry, and I just really question how thick this report is, since it's only a gathering of some of the information and an overall look at two weeks' work. I don't want to see a two weeks' Hansard go in to the minister. Let's stick to an overview of what we asked Ms Campbell to do.

**The Chair:** Ms Campbell, would you like to proceed?

**Ms Campbell:** I have a question, though, arising from Mr Wiseman's comment. Does the committee want further reference to consumer confidence included in the second paragraph on page 3 or are they satisfied with the reference as it appears?

**The Chair:** We certainly don't have a consensus, I don't think, with respect to that.

**Mr Sutherland:** If there were other sources, if you want to comment on those other sources that mentioned about the consumer confidence issue, then fine, but otherwise, it can probably be the way it is.

**The Chair:** It would appear that the committee agrees with that.

**Ms Campbell:** I have one further question under the heading of "The Past Year" before proceeding, and that is to go back to a comment that Mr Phillips made about employment figures, comparing 1994 with 1989. Is the committee agreeable to including figures from 1989 and 1994 re employment?

**The Chair:** Any comments, Mr Sutherland?

**Mr Sutherland:** I had suggested that we may want to deal with that under the section that deals with the issue of employment. I don't know what Mr Phillips's thoughts were on that.

**Mr Phillips:** It just seemed to fit consistent up here, just because we were talking about 1994 and what not. So I wouldn't mind it, just to put it into perspective of how far we've come.

**Mr Sutherland:** If I may, the only thing is that many of the figures that are cited here, because it is titled "The Past Year," don't go back and do comparisons to put the perspective, whether we choose 1989, 1992, 1985 etc. So I'm just wondering, if we deal with a section "Unemployment," then we can deal more with that perspective basis under those individual areas rather than this, which is the title, kind of the summary of the past year.

**Mr Phillips:** Yes, that's okay.

1100

**Ms Campbell:** The next heading on page 3 is "Provincial Budget, Deficit and Debt." This particular section summarizes the comments made by the forecasters on that theme. Are there any comments from the committee?

**Mr Sutherland:** I'm just wondering if we could, on the ministry's comments, make some reference that in the forecast for eliminating the operating deficit, some of the basis for that is on the fact that that's without doing any increases in taxes.

**Mr Carr:** Just very quickly on this same point, I take it now, with some of the changes in the federal budget, that the numbers are almost irrelevant now anyway, with the transfers and what's going to happen with the provincial deficit. If we listen to the Premier at 10 o'clock, I guess he's going to tell us the changes. Should we put in, just in the very last line, that this report and all the figures that the ministry put were prior to the last federal budget? Because I suspect we're going to write a report saying, "This is what the government thinks is going to happen." At the same time, we probably have a Premier, whose press conference was at 10 o'clock, telling us they are not, for whatever reason.

Can we put a last line so that people know this report was pre-federal-budget, so that everybody knows? Quite frankly, I don't even know why we're spending a lot of time even looking at this area, because as you know, the ministry figures are probably churning the computer data out now to change everything based on the projections and the \$3 billion we're not going to get, or whatever the numbers are. So we're spending a lot of time looking at data that is quite frankly outdated, and the people should know that in the report. If not, then we're being dishonest, and we're quite frankly lying to them if we say, "This is the situation as of February 28," because it is not.

**Mr Sutherland:** I have no objection, from what Mr Carr is suggesting, if we want to have one line making reference to the point. I think there are other sections, of course, where we want to deal with the issue of federal transfer payments to the province. So if we want to put a line in here saying that—now, I think during the presentation the minister outlined his concern regarding federal transfer payments and any potential changes in the budget. By the time we're finished writing this report, I don't expect you'll have any new projections from the Ministry of Finance in terms of, "Okay, within a week we've got all our new projections, based on what the federal budget is, of where all our forecasting is." But if we want to go back and see what the minister had mentioned about a potential impact of transfer payments, I don't think that's a problem.

**Mr Carr:** The only point I wanted to make on it—and I know the NDP will have the numbers, and the political spin from the Premier is coming—is I would hope we could do it in a factual way, not being political, trying to slam the federal government on it, but just making note of that fact, without commenting in a “We support it” or “We don’t support it” type of way; if we could just say, “All the figures were done not knowing the transfers.” But I certainly would hope, and I think to be in a non-partisan way, we wouldn’t use this as an opportunity to slam the federal government on what it may have done yesterday.

If we can just put it in for factual, without commenting on whether it’s good, bad or indifferent, I hope we could have the wording that just basically says the numbers that we’re looking at have changed as a result of the federal budget, without getting into the comments—and Mr Johnson has returned from what the Premier has said—without getting into the political spin on whether it was good, bad or indifferent. Perhaps we could just have some agreement that the researcher will write it in a non-partisan, “these are just the facts” way of doing it.

**Mr Sutherland:** I think if we make a reference that changes in federal transfers may have an impact on the provincial budget, that’s a good enough statement from my standpoint.

**Mr Kwinter:** Throughout this document, I think we may have to change a few of the words, because notwithstanding that the hearings are held before the budget, this document will be going out after the budget. I don’t think we should change any of the numbers, because that again is rewriting history, but I do think it would be useful to just have a footnote saying all of these projections were made prior to the release of the federal budget, period, and deal with it that way.

**Mr Sutherland:** That’s fine.

**Mr Caplan:** I think that’s appropriate.

**Mr Sutherland:** Yes.

**The Chair:** If I understand the committee members properly, then a footnote with respect to the whole document saying that this document was arrived at prior to the federal budget being released, or something to that effect.

**Mr Kwinter:** If I may, I have already made some notes that I’m going to talk about. Let me give you an example: page 5, the last paragraph, where it says, “The upcoming federal budget has been the focus of national and international attention.” I think it’s quite simple to just say, “The federal budget has been the focus of national and international attention.” We can remove the term “upcoming.” Remove the term where it says “will,” “would,” just to put it in the proper context, without touching any of the numbers, because that, as I say, is a whole other exercise. I think if you just put the footnote saying, “All figures were projected prior to the federal budget,” that lets people know that that’s what it is.

**The Chair:** I guess the real indication, then, would be that the presentations made before this committee were made prior to the federal budget.

**Ms Campbell:** With regard to a footnote, would the

committee like that footnote added to the first paragraph on page 2 under “Economic Summaries and Forecasts” or to appear on the introductory page?

**Mr Sutherland:** Yes, maybe on page 2, because in that first paragraph you mention the federal budget and maybe that would be where the footnote could be put in.

**Mrs Caplan:** Actually, at the bottom you could just put a footnote that states the date at which the federal budget was presented.

**Mr Sutherland:** Yes, sure.

**The Chair:** Thank you. I think the direction then is clear.

**Mr Kwinter:** Just on a very simple point, on the bottom of page 4, the second line, it says, “According to the Bank of Montreal, the critical problem is the accumulated deficit.” I think that should say “the accumulated debt.”

**The Chair:** Thank you for that correction, Mr Kwinter. Mr Phillips.

**Mr Phillips:** Yes. Is it possible to get the impact of the federal budget on the transfers for maybe tomorrow’s meeting?

**Mr Wiseman:** You’d have to pay for it.

**Mr Sutherland:** I really can’t give you an answer at this time. We can put in a request, but—

**Mr Phillips:** I would think they probably have figured it out pretty quickly. I’m not sure how we can build it in here, but just so at least the committee has some understanding, if they’ve got it handy, and I would speculate that they’ve done the quick calculation.

**Mr Sutherland:** There might be some rough estimates at this time.

**Mr Phillips:** Yes.

**Mr David Johnson (Don Mills):** Mr Chair, you may have gone by page 3—I’m sorry to be a little late; I was at the Premier’s announcement—but on page 3, there’s a tally with regard to the investments in machinery and equipment reaching an all-time high of \$20.8 billion in 1994. I think it was the auto parts association that was before us talking about the investment in bricks and mortar in the province of Ontario. This particular item on page 3 is pertaining to machinery and equipment, but the auto parts association, it’s my recollection, differentiated between bricks and mortar and machinery and equipment and made quite a point of talking about the investment about bricks and mortar. I wondered, perhaps a question through to the legislative research if my memory is correct to start with, and secondly, would this be a good point to insert that particular comment?

1110

**Ms Campbell:** In response to your question, Mr Johnson, if you look on page 22 under the subheading “Auto Parts,” in the middle of that particular paragraph there’s the line:

“Performance has also improved because of increased investments in machinery and equipment. Even so, the Automotive Parts Manufacturers’ Association (APMA) told the committee that more investment in ‘new bricks and mortar’ was taking place outside of Canada.”



**Mr David Johnson:** Right. I'd certainly mention this. So you now have investment in two different spots, but number two, I thought they were a little more specific in terms of their reference beyond indicating that most, or all, of the investment was taking place outside of Canada in terms of bricks and mortar. Wouldn't it be a good idea to bring these two comments together in one place?

**Ms Campbell:** This particular section is dealing with the economic summaries and forecasts that were presented by the Minister of Finance as well as the forecasters. If it's the committee's desire to insert a comment made by another group, it's their decision to make.

**Mr David Johnson:** I see. This front part has nothing—it just seemed to me that if we were to consider the total investment climate in Ontario and look at all the factors, then machinery and equipment is obviously important, but it's not the total story. The total story goes beyond that to the buildings and what they call the bricks and the mortar. The point that was made by the auto parts association is that they have witnessed some investment in terms of machinery and equipment, but there's been an appalling lack of investment in terms of bricks and mortar, which from their point of view, as I can recall, demonstrated a lack of faith, I guess, in the current situation or the immediate future. It just seemed to me that to get the total picture, if it was all brought together at some point—now, I don't know where the proper point is, but would that make any sense?

**Ms Campbell:** Is it the committee's wish to expand on the issue of machinery and equipment in this particular section under economic summaries and forecasts or—

**Mr David Johnson:** It would certainly be my wish to expand to incorporate the total investment picture, and if you think this is as good a point as any, then I would say yes, if that could be done on page 3, to look at the total picture of investment in Ontario.

**Mr Sutherland:** Can I just make a comment in response here? In terms of if we look at the tone of the paragraph, we're looking at general comments overall. Mr Johnson's reference is accurate, but it's citing a specific industry's comments about what is happening, and therefore I think the way the researcher has done it is appropriate in terms of it coming under the sectoral comments, because obviously, with auto playing a large part in manufacturing, it does have a significant impact but it would not account for all the investments in machinery and equipment in the province. So I think the way it's presented now is appropriate.

**Mr Carr:** Obviously, you saw what I was getting at earlier. I was told that we had to put it in because this is what the minister said and we were supposed to reflect it. As we see now, we will reflect it as long as it reflects strongly on the government, and if somebody came forward and said something negative, we'll bury it in the back of the report.

You can't have it both ways. You can't argue like you did with me and say, "No, the minister just said this, so we have to agree with it," notwithstanding the fact it's supposed to be an advisement to the minister, but then when there's something we disagree with which may put a spin on it that isn't quite what the government wants,

the parliamentary assistant says, "No, we can't put it in." You can't have it both ways.

I'm told by the Chairman that this isn't a political document, that we're supposed to be sitting here and doing it in a non-partisan way, and I'm told I'm crazy because I'm saying there's politics involved in it.

Mr Johnson has made a very valid point, and the parliamentary assistant stands up and says, "No, we have to have what the ministry says in there," all the positive things, but anything negative that was reported—I thought you told us we had to put in a reflection of what we heard, except when it's negative to the government, and then we'll bury it in the back under sectoral and not put it in the front of the report. You can't have it both ways and I think the public are seeing just what a sham this whole process is.

Quite frankly, what I'm going to do with it, because I've sat on it two years, I'm not going to waste a whole lot of time debating it, like I've done this morning. I think the public knows that if it's something good, you'll put it in; if it's something that doesn't reflect well on the government, you're not going to put it in the report. It's a complete and absolute sham that elected members are spending time giving advice to the minister when they're only going to tell him the things that he wants to hear, and it's an absolute waste of all our time.

**Mr Sutherland:** It's very clear that Mr Carr has pre-election fever, obviously, by the nature of his comments.

**Mr Carr:** No, I have cynicism from five years of you idiots. That's what I have.

**Mr Sutherland:** I did not indicate that I was going to ask that the comment in the sectoral section on the auto sector be deleted. My comment was this: I thought that was the appropriate place to put it because it's referring to their specific sector. The comments here are referring to all the sectors and are the comments of the forecasters, the Ministry of Finance forecast and the other forecasters, that we had in here, and all parties had input on which forecasters would be in here.

Mr Carr has been on this committee in the past years. He knows full well that in every report to the Minister of Finance we have always cited what the ministry has said in terms of the forecasts in terms of the main body of the report, and we are not doing anything out of the ordinary this year in terms of developing the body of the report.

The comment made by the auto parts manufacturers is an important comment. It should be in the report and I think the researcher has chosen the appropriate spot within the sectoral comments because they're referring to their specific sector in terms of their comments on investment. They are not talking about all the investment in all the sectors in the province that way. They're talking about their specific sector, and that's why it's appropriate to be in that section on the auto sector rather than here on page 3.

**Mr David Johnson:** I guess we have the view of the government on this issue and we would certainly be outvoted if it came to a vote on this matter, from the comments of Mr Sutherland.

I only raise the issue for a couple of reasons. One is

that it's hard at this point to contemplate a sector that's more important to our economy than the automotive industry, certainly in terms of exports. We all know and we've all heard through these hearings that exports are really driving the economy now, and any success we've had over the last year or two is due to the exports. I think we all realize that the automotive component of that is key. This industry, the automotive industry, is key to our success and has been in Ontario and will continue to be in the future. So their comments, I think, are a little more important than just to describe them as one sector of our economy. It's a fairly central component of our economy.

Secondly, the point they were making, I believe, is that an investment in machinery and equipment does not show necessarily a long-term commitment. Machinery and equipment can be picked up and can be moved. I think the implication here is that if the circumstances are such in Ontario that the investment climate is not appropriate, then the machinery and equipment, I presume, could be moved to other provinces or the United States or wherever.

Bricks and mortar show a long-term faith and a long-term investment. If the industry is going to build bricks and mortar, then there's a commitment, something that one can count on, presumably, in the longer run. That, and their comments, clearly illustrated to me that, yes, we've had machinery and equipment, but that's an essential thing to keep business up to date, number one, on a year-to-year basis—it shows no long-term commitment, the machinery can be moved—but number two, and in terms of a long-term commitment to this province, it isn't there.

There's concern with regard to the total investment environment in the province of Ontario, and that's demonstrated by the fact that there is very little investment in bricks and mortar in Ontario. Most of the investment is taking place outside Canada.

If we want to get a true picture of the investment, then rather than simply the comments with regard to machinery and equipment, if this is truly to be helpful to the Minister of Finance, we need the total picture. What we've got on page 3 is far from the total picture; I think it's almost misleading.

Those are my comments, but I can understand how this is going to be decided.

1120

**Mr Kwinter:** If I could be helpful, Statistics Canada reports the investment activity in the country on a quarterly basis. One of its indices is the investment in machinery and equipment. It's not political; it's factual. You may not like it, but you can't question it. If they say that the investment in machinery and equipment at this particular time is at an all-time high, it's at an all-time high. It has nothing to do with whether you agree with it or whether you don't agree with it.

It would seem to me that in this particular section, the Minister of Finance is reporting—I would have a question if the number was wrong but I assume the number is correct—that it has reached an all-time high of \$20.8 billion. It isn't a matter for political discussion; he's stating fact. I would suggest to my colleagues that anyone

can check it and the only time we would have any objection to it is if he misrepresented what the figure is.

But you should know, if you listen to your radio, that whenever you hear the financial analysts talking about the latest report of Statistics Canada, they always tell you, and you'll always hear it, that one of the components is that the investment in machinery and equipment is up or down.

As I say, you may not like the political spin, the implication of that, but it's a matter of fact and the only question we should have in this particular section is whether or not the Minister of Finance has reported it accurately.

**Mr Carr:** No one's doubting that. All we're saying is that the facts he's reporting in this section are the ones he likes; he's picking and choosing. In the first paragraph, specific reference was made to motor vehicles and auto parts. The parliamentary assistant wants that in when the spin is that it's good, which it is, because exports are up. He says we can only talk about it in the sectoral. Then why in the first paragraph do we talk about reference made to motor vehicles and auto parts? The reason it's done is because it is good news in terms of the exports.

I have no argument with what Mr Kwinter is saying other than the fact we want to make: What the Minister of Finance is doing is picking and choosing the facts he wants to put in there, and anything good, he wants to put in. We're going to be reporting to him, supposedly advising him, with the facts that he likes, and anything that he did not like will not be in this front section of the report.

Mr Kwinter is absolutely correct in what the minister has pulled out, and he is reporting the facts and the facts aren't wrong. What he is doing is selectively reporting the facts that have a good political spin on the government. That's what we're pointing out. In the first section, you say we can't have reference to sectors because that comes in the back of the report, and yet when the exports are up you want it in there.

All I'm saying, and I'm not going to argue this point, for the folks at home who are looking at this is that this document is nothing but political spinmanship. The minister is going to put the parts in the beginning that make the government look good. The ones that don't are not going to be in this report and it's not going to be an accurate reflection of what's happening. Quite frankly, it will not be worth the paper it's written on.

**The Chair:** Mr Carr, I would like to remind you that the document that we have before us was a document that was written by a non-partisan person, who is our research officer, and I think—

**Mr Carr:** Who knows what's going to get put in or taken out.

**The Chair:** Well, I just think, Mr Carr, that—  
*Interjections.*

**Mr Carr:** Where am I wrong in my assessment of why you won't put it in there? Let's not argue the point. Let's not go on. We could go on for days.

**The Chair:** Order, please. I would just like to remind everyone on the committee that the research officer has



compiled the information she's had. She's edited it to give us a concise report. It's not a political document in any way, shape or form. As we debate this further, we are at this point in time dealing with facts, and as Mr Kwinter has pointed out, we should be concerned about whether the facts as they are reported are accurate or not, and I think that's a very good point.

There will be a point at the end of this report where we make our recommendations. I have no doubt it will become very political at that point, but it would be helpful to get through this factual stage of the report right now so that we can get on with the business of writing this report.

**Mrs Caplan:** I don't want to upset anybody unduly, but I do think that Mr Carr perhaps is suffering from a little premature—

**Mrs Haslam:** PMS.

**The Chair:** Careful, careful.

**Mr Carr:** Don't be sexist now.

**Mrs Haslam:** You don't know what it means.

**Mr Wiseman:** Premature electioneering.

**Mrs Caplan:** I'm trying to find the right word. I'm being very careful in what I say—obfuscation, premature obfuscation. I believe that if he really wanted to be honest with the people watching this, he would acknowledge that our very fine legislative research person, Elaine Campbell, has compiled what is a compendium of what we heard before the committee.

This report could well become a political document when the NDP caucus gets finished with insisting on what recommendations it will and will not accept, but at this point in time it is her best reflection of what the committee heard. The committee can attempt to add to the report those things that members heard and feel should be in the report that perhaps in good conscience Ms Campbell overlooked or decided in her wisdom and judgement not to include at this point, but it is unfair to suggest that Ms Campbell's report is a political document. That's not fair. From my review of the report, everything that is in it is in Hansard. Whether you agree with it or not is the part that we will debate during recommendations.

At some point I may agree with Mr Carr. We have agreed in the past and likely at some point we may agree in the future that this will become an unacceptably politicized document. But I would tell the people watching the debate at this time that there is an election in the air and that what they're seeing here today is some premature posturing.

**Mr Sutherland:** Could I just come back and deal with it? As to the specific reference made to motor vehicles and auto parts in the other section, I believe, if you look back, the reason that is cited there is because that's what the CIBC used. It is their reference, not a question of a specific group. I believe research has already told us that she's tried to reflect the comments solely of the forecasters, including the Ministry of Finance as a forecaster, in this section, and that if there is that reference made there, it was made by one of the forecasters.

I can guarantee you two things: We are not going to ask for the removal of the comment made by the Automotive Parts Manufacturers' Association in the next sector, and I can tell you that I'm certainly not going to ask for any changes in the next paragraph, which probably isn't the most positive paragraph in terms of comment on things, just to let the people at home know that some of Mr Carr's comments aren't reflecting everything that is being presented to us here.

**Mr Carr:** A final point and we'll move on: What I'm trying to say is that we've been doing these reports for four years now. We give recommendations. None of them have been listened to in terms of the minister anyway—

**Mr Sutherland:** That's hogwash.

**Mr Carr:** —from everything, from the way it gets reported. We're just sitting around here trying to portray that the minister is not putting a spin on what he wants in a report done by a committee with the majority of the people on there who are the NDP, and that's fine. For most of the report, he doesn't even follow the recommendations and there's no sense being political with it because 99% of the people in this province will never read it or hear about it or report it.

But I do want people to understand that a report that comes from this committee that has only selected good things in the first section that the government wants us to report is not being fair and honest with the people. I recognize that, and we're not going to spend any more time on it, but I want the people to realize that what we're doing, putting in this report, is selectively giving the government a spin on the good things it wants and it is not reflective of what people said.

If Elaine thought there was any accusation put on her, she is accurately reflecting what the minister has said, but of course the minister didn't talk about the negative things like the auto parts manufacturers did. I just want everyone to realize that what is going to be in this report in the front section is going to be the minister's spin on things and it is not going to be an accurate reflection of what is happening in the province of Ontario.

1130

We can keep talking about this all we want and keep going for hours, but the fact remains that this section will be a political spin based on what the government wants to put in it. I recognize that fact and quite frankly I'm going to live with it. Let's move on and get on to the next section rather than debating this thing for the entire day.

**The Chair:** Unfortunately, you don't have the last word, Mr Carr.

**Mrs Caplan:** Let me try to be helpful here to Mr Carr if I can. I would have no problem supporting an additional paragraph that might give him comfort that would reflect something he thinks was left out that is in Hansard. If he can find it in Hansard and it will add the kind of balance he thinks should be in this, I would support that kind of an addition.

**Mr Carr:** Page 22.

**Mrs Caplan:** All I'm saying is that this report as it is written by our researcher is a reflection of what is in

Hansard. We the committee have the opportunity to add to this report other things that are in Hansard.

**The Chair:** Made by forecasters.

**Mrs Caplan:** Made by forecasters. We can put that in if it's there and you feel it's been left out, Mr Carr. I would support putting that in and let's have the big debate on the recommendations. That's where we're going to disagree, obviously. But let's get through this part of the report and put in those things that we believe legitimately have been left out or exclude those things that we think put on a bias or a spin that was unintended by the presenters. Other than that, frankly I want to congratulate Ms Campbell on an excellent compilation of what we know we heard and what we see in Hansard when we review it.

**Mr Carr:** Just for Mrs Caplan, that's what Mr Johnson was saying. Page 22 of the report talks about the auto parts manufacturers, where they say, and I quote, "It spoke of the erosion of the perception of Ontario as a good place to invest." That's what we're talking about putting in, what the auto parts manufacturers are saying. That's what we wanted in there.

**The Chair:** If I could be helpful, Mr Carr, this section deals with forecasters. If the forecasters made that comment, I'm sure Ms Campbell would be pleased to include it.

**Mrs Caplan:** And I'd support that.

**The Chair:** But that wasn't the case, as I understand it. However, if you can find that in Hansard, as Mrs Caplan has suggested, I think that would be helpful to Ms Campbell with respect to including that information in this section.

**Mr Carr:** Then why on page 3 are we talking about, "Specific reference was made to motor vehicles and auto parts"? Should that not be taken out and put in the last section? You can't have it both ways.

**The Chair:** A forecaster made that comment, Mr Carr.

**Mr Carr:** We're going to be here all day.

**The Chair:** Indeed, if we continue with the arguments as we are.

**Mr Carr:** Let's move on.

**Mr Norm Jamison (Norfolk):** I think this conversation basically has been one that's evolved around a certain aspect, and that is, if we really put it into context, we're talking about forecasters. The section is headed "Forecasts by Forecasters." I believe it's become abundantly clear that the vast majority of this committee is agreeing that those forecasts as outlined there are correct as far as the forecasters are concerned. Again, given that this section deals with forecasts by economic forecasters, there's no sense in my opinion in skewing that section of the report by adding something that doesn't come from forecasters.

**Mr David Johnson:** Just two final points: I guess this will be it too. I too think Ms Campbell has done an excellent job and I just want that to be clear. We're just talking about reordering some of the material that's in here. Going through here, she's had to listen to a lot of

submissions, go through a lot of words and certainly has come forward with material that reflects volumes and volumes in a short period of time. Having worked with people in the civil service for over a couple of decades, I can say that to me she seems to have done an excellent job. At the same time, just because she's done an excellent job doesn't lose for us the ability to question how things are ordered within the report.

Secondly, although the difference between forecasters and other deputations has been clearly established, I find that boundary a little bit artificial. For the auto parts industry, for example, with some 520,000 jobs and national sales over \$100 billion, my guess is that the people who write their reports are very sophisticated. The man on the street would probably say that they've got excellent abilities to forecast and therefore they are forecasters. I know by the rules that we've laid out they are not called forecasters, but I think that many of the deputants who were involved—

**Mr Jamison:** Like my wife. My wife forecasts all the time.

**Mr David Johnson:** Well, your wife doesn't have the weight of 520,000 jobs and \$100 billion in national sales. I'm sure we would all agree around here that the auto parts people have a high degree of sophistication in terms of coming forward with political—or sorry, not political—with economic analysis, let's say.

**Mr Jamison:** You were right the first time.

**Mr David Johnson:** Economic analysis. That's the only other point I'd make, but having said that, that's the last word I'll say on this particular issue.

**The Chair:** At this time I would like to proceed, and I'd like to turn it back to Ms Campbell to take us forward. If you have any questions at this point in time with respect to where we are and what we've accomplished, I'd appreciate your raising them with the committee.

**Ms Campbell:** I think we had moved to the heading "Provincial Budget, Deficit and Debt" at the bottom of page 3 and had started some discussion on this particular section.

**The Chair:** Any comment from the committee members with respect to the "Provincial Budget, Deficit and Debt" section?

**Mr David Johnson:** Just to note, at the bottom of page 3 it says, "Program spending had gone down two years in a row...." It could also note that while total spending has continued to increase—

**The Chair:** Pardon me, Mr Johnson?

**Mr David Johnson:** Right at the very bottom of page 3 the comment is made that "Program spending had gone down two years in a row...."

**The Chair:** And it also says more than that. It continues on the next page as well.

**Mr David Johnson:** Yes, that "overhead costs had decreased," but nowhere does it put that in the context that I can see, as somebody pointed out to me, that total spending in the province of Ontario has continued to increase during that period of time. Each and every year, the total spending, including capital spending and the



crown corporations, if you lump it all together, has continued to increase.

**Ms Campbell:** I'll see if I can find any reference to total spending in the presentation that was made.

**Mrs Caplan:** In fact, I think it is there if you translate the graphs. I think that would be appropriate because this is correct as far as it goes, but I think it's out of context, and the context really is the relationship to the government's expenditure plan over the last few years. I mean, the reality is, as we know, that spending in the first two years was up 30%. It's down from that point because that was when reality hit. I remember the Premier's speech about "time to smell the coffee" or whatever, so I think this is out of context with what the reality on government spending had been since the fall of 1990.

**The Chair:** So I understand, then, Ms Campbell, you will see if you can find that information?

**Mrs Caplan:** Yes, even if it's just inclusive of a graph or the translation of the graph to explain that so people see what this is a reflection of.

**Mr Phillips:** I guess we all appreciate that the auditor has quite a different set of numbers than these, and you do make a point in the next paragraph that he commented on them. But he would say, as he said at a committee meeting, that the deficit in 1994-95 is not \$8.3 billion, that it's somewhere around \$10.7 billion, and the capital expenditures, assumed to be \$1.8 billion, then the government reports things like \$4.4 billion and shows \$2.2 billion. I think for the public there's quite a discrepancy between what the government shows as expenditures and what the auditor would call financial reality. I don't know how to get that in other than saying it here, and later on we get into the auditor's comments.

1140

The other comment I'd make is, "Government overhead costs had decreased by 16% in the last three years." It seemed to me that the material we got handed today from Mr Christie on some of the—this is point 2, "Ontario Financing Authority (OFA)/Public Debt Interest (PDI)," and then government overhead costs and capital, for example, some of the things that used to be shown as government overhead are now shown as public debt interest, where quite a number of people who used to be shown, as I say, as government overhead now get lumped into public debt interest and that's somewhere else on the book.

I'm not sure what this note says, whether—

**Mr Sutherland:** It says it started in 1987-88 or something like that.

**Mr Phillips:** Well, it sort of says that, and then it doesn't.

**Mr Sutherland:** Gerry, you want to talk about spinning.

**Mr Phillips:** The point is just that I'm trying to get a determination of the reality of the government overhead decreasing by 16%, because it then, in point 3, I think talks about a number of people who used to be shown as overhead now are part of the capital budget, if I read this note properly. So I guess we may have to take the 16% decrease with a little bit of scepticism. I can't get apples

to apples to apples comparisons here because of the changes going on with what's called capital corporations.

**Mr Sutherland:** If we do read the note, I think we can say in regard to the apples to apples in terms of what the government said, that overhead costs had decreased by 16% in the last three years, you note in number 3 of the document presented to us it said, "The 1987-88 public accounts started to report separately on capital-related salaries and wages and other direct operating expenses."

What we're really saying here is that that process was actually started by the previous government, your government, in terms of doing that. So in terms of there being significant changes in what's included in the capital, the sense I have is that there hasn't been significant change, that the change really occurred in 1987-88.

**The Chair:** Ms Haslam, thank you for being patient.

**Mrs Haslam:** You're welcome, Mr Chair. I wanted to go back to something we were talking about at the bottom of 3 and the top of 4. There were comments about bringing in a chart and looking at the reduction of program spending being down in two years and government overhead costs had decreased by 16% and you wanted to take a look at that in the overall expenditure aspect of government overall spending.

If you're going to do that, then I would like to make it a definite difference between the program spending versus interest, and that's part of the problem when we take a look at those kinds of figures. In truth, program spending is down for two years in a row. If you're going to look at overall government spending being up, I'd like to see some mention made of how much of that is interest versus the idea that program spending is down and overhead costs are down. Part of the increase is the borrowing interest.

**Mr David Johnson:** I guess Ms Haslam is right, there is the interest and there are the capital programs and there are the crown corporation programs, but they all have to be paid out of the pockets of the taxpayers, either now or in the future. I don't have really any problem segregating them out, except that it's really the total picture that conveys I think the accurate one to the Minister of Finance, because all the money has to be paid, no matter whether it's interest or expenditure in a crown corporation, a capital program or no matter what it is. It all has to be either paid this year or deferred through a deficit and have somebody pay it in the future.

I guess downplaying the interest on the debt is a little bit equivalent, if you were a homeowner with a mortgage, to saying: "Except for paying my mortgage, I'm doing okay. If I could just forget about paying my mortgage, then I'd be in a wonderful situation." But it's an obligation that you've assumed because of actions you've taken in the past as a homeowner to purchase a home or as a government to not balance the budget in the past. Unfortunately, budgets haven't been balanced, so the debt and the interest continue to mount, and that's part of the real picture that the Finance minister has to face as he sets the target.

In terms of the overhead costs, maybe the parliamentary assistant would comment. I'm not even sure, again,

how relevant—I've lost a little bit of the thread on these overhead costs. Supposedly they're down by 16%, but again they're just part of the total picture and it's the total picture, to me, that matters. I guess it's a warm feeling to say that our overhead costs are down, but I'm not sure how much relevance there is in that since our spending continues to go up, albeit, I'll admit, at a very much decelerated pace than it had been for several years before. The spending is flattening out. There's no question about that.

But to pick out individual little components and say this component has gone down or that little component has gone down, within an ever-climbing expenditure total accumulation, I'm not sure really of the significance of that in terms of assisting the Minister of Finance in writing his budget.

**The Chair:** Ms Campbell would like to ask a question.

**Ms Campbell:** With respect to this first paragraph under "Provincial Budget, Deficit and Debt," would the committee like the last two lines of that paragraph deleted?

**Mr Sutherland:** No.

**Mr David Johnson:** You mean in terms—

**Ms Campbell:** Take out "Program spending had gone down two years in a row," and then "Government overhead costs had decreased by 16%"?

**Mr David Johnson:** To answer your question, Ms Campbell, although Mr Sutherland has made his views known, I would say I don't find it particularly helpful to the minister. If this is a document that's to be helpful to the minister and to reflect any kind of overall situation, I would say yes, by all means, take them out. As far as I'm concerned, they're not particularly helpful.

**The Chair:** Certainly we need to get a consensus with respect to that. There's a suggestion that those last two sentences be removed. I hear the government saying no. Mr Johnson would like to see that. I'd like to get a broader perspective with regard to this.

**Mr Kwinter:** My problem with the sentences is that, the way they are presented, from an editorial point of view, it gives the impression that these are comments by this committee. I'd be a little happier if it were identified with somebody.

**Mrs Caplan:** The Treasurer said it.

**Ms Campbell:** Such as, "the minister reported that the program..."?

**Mr Kwinter:** Yes.

**Mr Sutherland:** That's fine.

**Mr Carr:** I think the government side said they wanted those in but that they did want the total spending in, albeit broken down like Karen wanted, and I just wanted to compliment them. There were some things that they wanted to take out, and when they have wanted to put that in, because I have been fairly critical this morning, I want to compliment them and say that's good because that's an accurate reflection, getting the bottom line. Then you can break it down with the interest payment, which is a big chunk of them.

When they do something and want to include something in there that I think is correct, I want to commend them. I would like to commend them on this because I think that will give an accurate reflection, and on this particular point I agree with them.

**Mrs Caplan:** Could Hansard just note that on that point I agree with Mr Carr.

**Mr Sutherland:** Group hug. Just to respond to Mr Johnson's comments about these two sentences, that "Program spending had gone down two years in a row" for the first time in 50 years and on government overhead costs, about whether they're relevant or important, I guess I have to laugh a bit hearing those comments coming from the opposition, because Mr Johnson and some of his colleagues, and I know Ms Caplan, who's the critic for Management Board, is often citing these alleged increases in administrative spending and all those things that people don't want more of.

1150

In spite of those many questions asked in the House and the many press releases that come out from the Tories and Liberals talking about increased administrative costs, I think it's important that the public see that those costs are being reduced and that the majority of the funds are trying to be spent on the actual front-line services being delivered, that we are dealing with those costs at the top, which I think all the public wants.

In terms of program spending, I think that's important to note too because when we're looking at the out years and what pressures may be on the budget, whether program spending is going up or going down has some impact on what the future pressures are that have to be managed. They are two important issues that need to be cited and made reference to.

Coming back to what Mr Kwinter said about what forecasters look at, certainly many of the analysts who were commenting on the federal budget yesterday made reference to comments relating to program spending.

**Mrs Caplan:** There's a couple of points I'd like to make, and one is that this report be an accurate reflection; therefore, I'm pleased to see the support for the inclusion of the numbers in context.

Secondly, as someone with experience on municipal council where capital and operating are clearly separated, so that I think for transparency and accountability the public who view the budget-making process at the municipal level have a very good understanding of the difference between those two budgets, I would point out that there is a minor capital budget line included in the operating budget of every municipality. It's important I think that those be separated and clear.

The concern that I have, and I echo the concerns of the Provincial Auditor, is not with the separation of those two budget lines, but with the confusion that you cause by moving it off book so that it is not clear, transparent and accountable, number one; and number two, that you are not following the Provincial Auditor's advice in presenting your budget in the same way as you present your reports to provincial accounts, further adding to the confusion.



I want to be very clear that what I'm calling for is greater accountability and transparency, and I'm supporting the Provincial Auditor in his call for the government to present its books in a way that will lead to complete transparency, clarity and end the confusion so that there is accountability to the taxpayer. I want to make that point.

The other point, and I don't want to get into a partisan wrangle with Mr Sutherland, but it is very important to know that the massive increase in spending in the first two years and in the first two budgets presented by the Rae government led to many of the problems that we face today in Ontario. The year-over-year deficits of \$10 billion have put us in a very precarious fiscal position. The fact that the Treasurer has reported in the two sentences at the bottom of page 3 and page 4, if we put it in the context of this is what the Treasurer is saying and put it within context, I think is again in the interests of accuracy and accountability.

I just make those comments because I want to be consistent in the approach that this committee takes.

**Mr David Johnson:** Well, I'm content, first of all. I'm not arguing this point any more. I think Ms Haslam's suggestion is a good one and that's fine, but I just wanted to take issue a little bit with Mrs Caplan with regard to municipal budgets. The city of Mississauga, for example, has no debt and there's no differentiation between capital and current. Everything is paid for up front.

**Mrs Caplan:** They still report it as capital and operating.

**Mr David Johnson:** But it's all one, it's not amortized over a period of time or whatever, so it's all paid. Metropolitan Toronto, for example, pays out of its operating budget, I think it's six mills towards capital projects.

**Mrs Caplan:** But it's still reported separately. You can see them and it's clear and you know exactly what it's for.

**Mr David Johnson:** But the key thing here is we're talking about how it's paid, and it's paid on an annual basis. The borough of East York, as I was leaving, had instituted a plan to do exactly the same thing and we were about halfway through that plan when I left two years ago. So I assume by now they may have arrived at that situation. I don't know all other municipalities, but the point is that there is to some degree a fine line between what's capital and what's operating.

On the debt, the debt is largely deferred operating costs. As the debt is reflected here today, a lot of that would be program spending that took place the last several years. But we didn't balance the budget at that point in time, so the program spending was put into the deficits, which rolled into the debt, and now we've had to borrow money. About 60% to 65% of the money we borrow is from overseas, the United States or Europe or Japan. We've had to borrow money to cover that program spending which we didn't pay in the operating budget of that year.

So without arguing a point too far, the total spending is somewhat reflective of program spending too, because

some of it is simply deferred program spending, which is in the interest, and again there is a fine line between capital and program and different jurisdictions treat it in different fashions. But at any rate I'm content to leave it the way it is and put in all the various categories of total spending.

**Mr Sutherland:** I just want to say, going back to the first two years and the budgets, I think since we're talking about context, let's put some context in there. I know that both opposition parties have wanted to say that it's because we did all this exorbitant amount of new spending that we got to the high debt level, and that just isn't the case.

If you go back and look at the first budget you will see a lot of the increase was because of the recession, because of increase in social assistance. I can cite you the figures from 1991, the 250,000 people in Ontario who exhausted their unemployment insurance benefits, and of course we know, once UI runs out, they're likely to go on social assistance. Much of it had to do with increased costs associated with the recession and open-ended programs—

**Mrs Caplan:** And the huge wage increases.

**Mr Sutherland:** —in other words, the nature of them that if people are eligible, the province is then committed to providing them. So I think we need to keep that perspective in mind when we go back and look at that.

Then of course we ran into the situation of revenues declining two years in a row. I want to remind folks that the Tories in their 42 years never had to deal with a revenue decline two years in a row. As a matter of fact, in the 1982-83 recession, revenues increased. Of course we know that in the boom years the Liberals were fortunate enough to be in power while things just poured in so much.

**Mr Carr:** Just a quick point: I can't leave that going, because of course what happened in the first budget is they increased the salaries by 5%. It was ironic as I sat and watched the Treasurer of this province stand up and say, "We're going to fight the recession, not the deficit," and watched while they stood and cheered. He thought they were going to spend themselves rich and in the first budget they increased the civil servants' rates by 5%, and then of course, as you know, we had to go into the social contract and the layoffs of nurses and various people. So I can't let that one go.

**Mrs Caplan:** Once again I agree with Mr Carr.

**Mr Carr:** But ultimately you're stretching it if you think the people of this province believe that Bob Rae is a good fiscal manager, because quite frankly, as I said to my mother this morning, asking Bob Rae to comment on another budget and fiscal responsibility is like asking the Ottawa Senators how to win the Stanley Cup. So I couldn't let that comment go by about how well you've managed the finances. You dug the hole so deep, the last two years you had no choice.

*The committee recessed from 1159 to 1405.*

**The Chair:** We continue this afternoon with the writing of our report. We were dealing with our report as it is in draft form. I believe Ms Campbell will continue

to guide us very carefully through this.

**Ms Campbell:** Before we broke at noon we were on page 3, under the heading "Provincial Budget, Deficit and Debt." The members had some comments regarding the first paragraph and had some recommendations for some editorial changes to that particular paragraph. For one, they asked that there be some reference to spending figures on the part of the government in terms of actual numbers.

They also requested a bit of a wording change in the bottom line on page 3, to read, "The minister also reported that program spending had gone down two years in a row." I think that's as far as we had been able to get.

**Mr Kwinter:** As well, "and government costs," so that both those are attributed to the minister.

**Ms Campbell:** Yes.

**The Chair:** So we're clear up to the end of the last paragraph on page 3, then?

**Ms Campbell:** Yes, although maybe one more question: Mr Sutherland had made some reference to the inclusion of a phrase noting that there had been no increases in taxes?

**Mr Sutherland:** No, that the projections for the out years are based on no increases in taxes.

**The Chair:** Are there any further changes or comments the committee members would like to make with respect to the section "Provincial Budget, Deficit and Debt"?

We're on page 4 now and we have four paragraphs there to consider.

**Mr Kwinter:** I'm sure it was picked up, but I just wanted to make sure that in the second line in the last paragraph the word "deficit" was changed to "debt."

**Ms Campbell:** Yes, it is.

**The Chair:** Then we'll move on to page 5, where there is the ending of the last paragraph on page 4 and an additional paragraph, again under the heading of "Provincial Budget, Deficit and Debt." Any comments from committee members with respect to those paragraphs? Seeing none, the next section of the report is "Other Themes," on page 5.

**Mr Sutherland:** In the second paragraph, it's the reference to what the Minister of Finance said about the federal budget and then, "How would transfer payments to the provinces for health, education and social services be affected?" At this stage, because we don't have a specific section on federal transfers, I would like, since the reference is made here, that this be elaborated a little more in terms of the comments the Minister of Finance made about what we receive in terms of 29-cent dollars versus what the other provinces receive. A couple of comments to that effect I think would be appropriate, maybe at the same time that this paragraph, this sentence, asks a question, really, asking, how would they be further impacted compared to what already has been there?

**Ms Campbell:** The committee's agreed to that?

**Mr Carr:** I apologize, Kimble. Perhaps you could just go over that one more time.

**Mr Sutherland:** Yes. Judging by the look I had from

the Chair, I'm not sure he was clear on what I was saying either.

Basically, the Minister of Finance and we have certainly said for a while that the issue of federal transfer payments to the province of Ontario is an issue. Since we don't have a specific section regarding the issue of transfer payments to us from the federal government and that impact, in the second paragraph under "Other Themes" on page 5 we have the sentence, "How would transfer payments to the provinces for health, education and social services be affected?" I wanted one or two comments on what the Minister of Finance had said, on what the current situation is, and then I guess this sentence is saying how they would be further impacted in terms of the budget. That's really what I was asking for.

**The Chair:** With respect to the wording of the second paragraph under "Other Themes," I believe we've omitted the word "upcoming."

**Ms Campbell:** Yes, that's right.

**Mr Kwinter:** On my recommendation.

**The Chair:** Yes, Mr Kwinter's recommendation.

**Ms Campbell:** There should perhaps be some other changes in tenses there as well.

**Mr Sutherland:** Sure.

**The Chair:** Yes, I think Mr Kwinter made that point as well.

**Mr David Johnson:** Mr Chair, just to Elaine, if I could: We have, it seems to me, established that whatever comments are in here have to have been made in somebody's deputation, essentially, and I think the parliamentary assistant is suggesting we take some of the comments from the Finance minister with regard to transfer payments. I'm just trying to recall, were there comments that he made about—

**Mr Sutherland:** There was the one chart that was presented which showed that specifically under the transfer payments, particularly the Canada assistance plan, which is the one we've had the strongest argument with the federal government over, that we're receiving 29-cent dollars and that the other provinces are receiving 50-cent dollars under that specific program. If we want it clarified under the Canada assistance plan funding—because of course, as you know, there are the two other programs, established programs financing, and of course we don't receive equalization payments so we don't have any concern about that.

**Mr David Johnson:** Perhaps then, if I can direct it to the parliamentary assistant, your suggestion would be that something be included in here as to what he said with regard to the transfer payments in the past, I presume.

**Mr Sutherland:** Yes, referring to what he—

**Mr David Johnson:** Because obviously when he made his comments, he didn't know what was going to be in the federal budget.

**Mr Sutherland:** Yes.

**Mr David Johnson:** You're not suggesting that comments be made pertaining to that federal—

**Mr Sutherland:** No. I'm talking about the existing situation as the Minister of Finance presented it when he



made his presentation. Then the question here that's been put forward I think should remain.

**Mr Carr:** The only point I want to make is that if we're going to do that—and I made this point before. I had the 1984 budget and the 1994 budget and I compared. As you know, the budget puts the pie charts in the back, very simple to understand: revenue coming from the federal government. If we're going to do that, what I'd like to do is make a comparison, say a 10-year comparison, because as you know, what it showed was that in 1984, 17% of our total revenue came from transfers from the federal government. In this budget, the last pie chart in his budget was 16%. Even though the total dollars have gone up almost double the rate of inflation, their percentages are still almost the same.

If we're going to be like we talked about this morning, doing the bottom line with regard to the total spending, I think we should make a total comparison between the federal transfers and what's happening today. I use that as an example because I pulled out, and I think I showed you last time, when Mr Grossman was the Minister of Finance, to get a 10-year period. What it shows is that, percentage-wise, transfers from the federal government are only down one percentage point in total revenue dollars, but more importantly, those absolute dollars have gone up.

If we're going to do that, and if we're really going to compare what's happened, then what I would do, and I mentioned this to Elaine last time, is that I can get or she can get out of the budget the pie chart that shows the total revenue breakdown of how it—you know how it's done. It says federal government percentage-wise, and then it breaks down the CAP and so on.

Let's be fair, then. Let's look back and see what it was 10 years ago and do the comparison and pull out of the same budget 10 years ago—I just use that; we could use any one; going way back, I thought a 10-year might be an interesting one—and what it will show is the total amount we receive from the federal government as a percentage of the total revenue.

I don't think the government will like the numbers, because what it shows is that even percentage-wise we're almost receiving the same amount of our total dollars coming from the federal government as we were 10 years ago, and those absolute dollars, taking inflation into consideration, are up dramatically. So I would like to include that in this section if we're going to do that.

**Mr Wiseman:** I understand what the member is trying to do here and I think it would also be important to recognize that starting in 1984, there were drastic changes to unemployment insurance, so that the length of stay on unemployment insurance was altered, the number of people on welfare started to climb dramatically in 1987 and the number of people who are collecting welfare increased dramatically compared to the early 1984 numbers.

If you're going to try and say that because the percentage of dollars of total revenue in Ontario has remained roughly the same, somehow there isn't culpability on the part of the federal government in terms of the neglect of Ontario, it is a specious argument at the very best,

because if you start to take into account the rest of the parameters, the rest of the factors—like unemployment, growth in welfare and the total number of dollars that were being taxed away from Ontario—you start to get a different picture entirely.

You start to see in 1987, for example, that there were 500,000 people, roughly, in January 1987 collecting welfare in the province of Ontario. That starts to climb dramatically when you note that in June 1987 the Bank of Canada begins its assault on the so-called inflation rate, which was 3.8% in 1987, and it starts to push the interest rates up, which pushes the dollar up, which puts a lot of businesses out of business.

The fact that the number of dollars as a percentage of total revenue remains the same is misleading in that it's in 1987, because of the actions of the fiscal policy of the federal government, that you start to see welfare go right through the roof, to the point where I believe the last date—I have the figures—where welfare doesn't start to go on an upward climb, a continuous upward climb, I think is somewhere in May or June of 1987 and from then on it just climbs straight through until it hits 1.3 million, roughly speaking, about a year ago or so.

It's interesting. If you want to just take the one number, you had better also put in the rest of the numbers, and one of the numbers is the huge increase in the amount of taxes Ontarians have paid that have been sucked out of Ontario and the fact that the services do not come back.

For example, the amount of money being spent on unemployment insurance in the province of Ontario is less than the amount of money taken out of Ontario. The amount of money that's being spent on immigration in Ontario is not commensurate with the number of immigrants who come to Ontario. The number of dollars that are being spent in Ontario in training does not compare to the number of dollars that are being spent on a per capita basis in other provinces.

If we're going to just take a look at the one statistic, we need to look at all of those other numbers in terms of the changes that have been made and as they affect Ontario.

For example, one very clear one is that I would like to see the revenue extraction from Ontario that went to the federal government over a 15-year period. Right now the people of Ontario pay roughly \$52 billion in taxes to the federal government and receive back, prior to yesterday's budget, \$37 billion in services.

That's a gap of \$15 billion. I would like to know if that's a traditional gap or if this is a gap that has grown in terms of percentage over a period of time, and it's getting bigger. From yesterday's budget, they've added another \$1 billion to the impact on Ontario compared to other provinces. Where the total impact to all the rest of the provinces is \$1.5 billion, Ontario gets hammered with \$1 billion. It's fine for Mr Carr to be an apologist for Brian Mulroney at this point, but I would like to see the rest of the numbers if that number goes in.

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**Mr Sutherland:** I guess the point of Mr Carr's

comparison is that maybe in those dollar values they have increased, but the point regarding the Canada assistance plan is that it's supposed to be funded on a per capita basis and traditionally it's been a 50-50 split between the federal government and the provinces on a per capita basis. With the actions taken by the previous Mulroney Tory government and carried on by the current government, Ontario, with the 5% cap on increase—of course, this was done right as the recession took full hold and we had the significant increases in the numbers on welfare. That has meant that we're now into the situation the Minister of Finance talked about, where it's 29-cent dollars.

You can take the pie chart from 1984 and the pie chart from 1994 and do it in percentages and you can look at the overall dollar value. The point is, the program was funded and it continues to be funded in just about all the provinces on a per capita basis and the results of the chart show that. That's why putting it forward in this way in terms of the 29-cent dollars seems the more appropriate way, because it's the impact of the federal government not funding full per capita in the province of Ontario.

**Mr Carr:** I didn't think that one would fly, because it certainly shoots down the Premier's argument. I think what people are interested in is the bottom line, the percentage of revenue, how much we were getting from the federal government, percentage, which everybody can understand, in 1984 versus now. It doesn't justify the argument, because as I said, the percentages are almost the same; 1% difference in the dollars we're talking about. That is substantial.

I understand what you're saying with the population increase and so on and Ontario versus the other provinces. What I want to show people is that basically the bottom line percentage of revenue that we receive from the federal government is virtually unchanged in terms of our total dollars. I understand it won't fly because it shoots down the Premier's argument about Ontario being shortchanged. The NDP members might be interested in looking at it and I can assure you it will be in our minority report, so if you do get a chance to look at our minority report, you can look in there and see exactly what the facts are.

It won't be me putting the chart in. That chart is the one done by your Minister of Finance for this year and the one that was done way back, and it's been a tradition to do them in pie charts. It makes it very simple for people to see. What it also does is they will see a breakdown in that pie chart, because it will be 17% from the federal government—that breaks it down, established program funding and CAP as well, as you know. That will be interesting to look at. I understand the NDP won't put it in there. Rest assured it will be in our report.

**Mr Wiseman:** He's right; it's not going to fly unless—and I would be really interested to see his minority report, to see if there's any discussion of the comments I made in response to his.

One more point I would like to make about this is that in October 1987, when the free trade deal was signed, the unemployment rate in the GTA—I'm sure my Liberal

colleagues will remember this—was roughly about 3.5% or 3.6% unemployment. If you recall, that was a very low unemployment rate and the economy in southern Ontario was humming away with record housing starts. In my area, Ajax and Pickering, there were 1,400 housing starts in one year alone, whereas today it's like 200. The unemployment rate was very low compared to now, where the unemployment rate in the GTA is over 9%. So if you're going to take a look at the numbers because of the changes in the unemployment insurance that the Tories made and then the Liberals made, the number of people on welfare is higher as a percentage than it would have been under the previous rules.

It's okay, Gary, Mr Carr, whatever, to talk about percentages of totals, but what about the percentages of the totals in the other areas, like unemployment, that in Ontario were extremely low in 1987 until the federal government increased the interest rates and increased the dollar value and did the free trade deal? I think it's important to take a look at all of those numbers and I would be interested in seeing if there is intellectual honesty in the way you present that number in your minority report.

**The Chair:** I'd just like to remind the members that the report of the opposition parties will be called a dissenting opinion, just for the record.

**Mr Carr:** We can't even decide what we're going to call it. I thought that was up to us too.

**Mr David Johnson:** Just since there's a little bit of philosophy going around the table—

**Mr Wiseman:** It's not philosophy; it's economic history, Mr Johnson.

**Mr David Johnson:** —social philosophy—the point that would be interesting to me is that it seems fairly evident that one of the reasons that the federal government isn't giving the same percentage, for example, on welfare to Ontario as to some other provinces—and historically, my recollection is that the formula had been 50-30-20, 50% from the federal government, 30% from the provincial government and 20% from the municipal government, but that has changed in Ontario.

I believe now in Ontario, if the municipalities still pay their 20%—some do and some don't, I guess—the province probably pays a little over 50% and the federal government somewhere around 29% or 30%. I believe those are the numbers that have come out. The sense I have is that one of the reasons is that the rates for inflation in Ontario, on average, are well above the rest of the country.

Now, there are many different classes, so somehow you can meld them altogether, all the different classes, and take an average of what's paid in welfare in the rest of Canada. The Ontario rate is well above that. My sense is that there has been a reluctance at the federal government to match what it views as being unfettered increases in the province of Ontario.

**Mr Wiseman:** We had an 800,000-person increase in the number of people on welfare from 1987 until 1993.

**Mr Carr:** Let him finish. We didn't interrupt you.

**Mr David Johnson:** There may be different reasons



for that. One reason that is cited on some occasions is the fact that the Ontario rates are higher and that certainly attracts people from other provinces.

You can shake your head, but I think it's fairly apparent to most that there's some degree of that involved in the number of cases in the province of Ontario. Plus, simply because of the fact that the payments are higher, I think there's a strong reluctance on behalf of the federal government to match what it views as being uncontrolled expenditures in the Ontario rate of welfare.

I don't know if there was any mention of that made in the briefs that were put before us, but if there was, I'd certainly like to—I doubt it very much, because I don't suppose the government would put that forward. But you can imagine the position of the federal government in having to match at any level, no matter what rate is introduced. There is a limit to the matching ability.

It would be interesting to have a financial model. If the rates in Ontario were the same, on average, as in the other provinces, then how much closer would the funding formula be?

**Mr Wiseman:** Adjustment for standard of living?

**Mr David Johnson:** No, no. I'm talking about the rates across the rest of the country. If Ontario had that sort of model, then how close would the federal moneys match the formula? I don't know if they'd match it bang on—probably not—but still, I don't think there's any doubt that the federal contribution to Ontario would be much closer to the 50-30-20 model than it is today.

**Mr Wiseman:** It couldn't be.

**Mr David Johnson:** Well, sure it would be. It would have to be. There's no question about it.

**Mr Phillips:** Just two or three points: The mention of free trade: It's interesting in that what we heard, I think, from a lot of the people who came before the committee was that the one thing Ontario has going right now is our exports to the US, that that's driving the economy right now.

As a matter of fact, an interesting statistic is that five years ago 85% of our exports went to the United States from Ontario; today it's 90%. We all talk about becoming much more of a global economy, but it's going the other way. As a matter of fact, our absolute trade with the Far East has gone down over the last five years in absolute dollars.

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The reason I mention that is just that I think probably the reality is that whether we like it or not, if we are going to have a successful economy in the future, we've got to be able to successfully trade globally. Whether the free trade agreement was exactly the right agreement or not is obviously open for debate, but there's no doubt our future rests, as I say, on our ability to trade. That seems to be what's driving our economy right now, our manufactured exports to the United States.

I would just signal something that is of concern to me at least and that is that over a four-year period exports in Ontario went up \$21 billion; imports went up \$27 billion. So our exports are not growing as fast as our imports. I'm told not to worry about that because a lot of these

imports come into Ontario and then they're shipped across Canada, but at least it's a question for us all.

On the debate about the federal government, the provincial government and share of revenue and what not, the thing I get from people is firstly a recognition that there is no federal taxpayer, provincial taxpayer and municipal taxpayer. We're all in this thing together somehow or other.

As you actually see in the budget, next year I think the federal interest payments are going up—I'm not sure I'll be able to lay my hands on it right now—by about \$6 billion year over year. One thing Ontarians know is that they're paying 42 cents of all of those interest payments. I think all of us have a clear interest in making sure that we get the federal fiscal house in order, the provincial fiscal house in order, and I think most municipalities have their own fiscal houses in order.

Undoubtedly it will be an ongoing debate over the next few weeks, because pretty clearly the government would like to run against the federal budget. I hope I'm not being overly political in that respect. That's just reality. I'll just say to us all that the public, as I hear from them, say, "Listen, you're not helping me if you're constantly fighting and not solving." We'll see, as I say, how that unfolds over the next few weeks.

**The Chair:** The next few days with this report.

**Mr Phillips:** Yes, although I think the public debate will be probably around different material.

**Mr Sutherland:** On the comment on the imports and exports, because I believe Mr Phillips also raised this in some debates in the House, it's my understanding that traditionally does happen when we come out of a recession. It occurred when we came out of the last recession.

Some of that has to do of course with the discussion we had earlier about investments in business equipment and machinery, that a lot of that does come from outside the country. So as the economy is picking up, factories start to reach capacity and they're going to make the new investments. Of course, they're purchasing that and you see those import figures go up.

Just responding again on the issue of the transfer payments, though, if Mr Johnson can tell me somewhere where part of the Canada assistance plan deal is that there's a sliding scale of some sort that the federal government only picks up 50 cents of whatever the overall amount, only picks up 50 cents until you get to a cap to what the payments are on the social assistance, I'd like to see that.

I haven't seen anything like that and I don't believe that's how the Canada assistance plan was formulated and founded. If the federal government feels, for whatever reasons and considering fiscal reasons, yes, that there aren't more dollars and it wants to work out a new arrangement, then it should enter into a negotiation process with the different provinces.

The point of the matter is, we're not saying, "Okay, feds, you've got to go and spend more on your overall costs on social assistance transfers to the provinces," but what we are clearly saying is, why is it that someone in

Ontario only receives 29-cent dollars and someone in Manitoba, Alberta, New Brunswick may receive 50-cent dollars? Is it a sense that Ontarians aren't valued in the same way by the federal government as the other provinces?

That's really what the point of it is. If they want to renegotiate and enter into that negotiation process with all the provinces, fair enough, let's do that. The feds may want to say, "We want some new conditions," but let's treat all the provinces in an equal way and let's not arbitrarily pick on some of the better provinces, and particularly because of the timing of when it occurred.

As we went into this last recession, no doubt about it, Ontario was far harder hit because the manufacturing sector was far harder hit, and while exports may be up now, there's no doubt, no one can dispute the fact, that there was a great deal of adjustment in the manufacturing sector in the implementation of free trade. You know, there were commitments made about adjustment programs from the federal government, and I would dispute anyone to put forward where those much-heralded adjustment programs really came from the federal government to that.

I think those are some points that need to be put in place to give a larger context to this discussion.

**Mr David Johnson:** A last response on this welfare thing: If you just look at the numbers and think about what happens in other components, you may say, "Well, it's all different, because there's an agreement on the welfare system, agreement on payments, but why doesn't the federal government contribute the same amount to welfare in Ontario on a proportionate basis as it does in the other provinces?"

Why doesn't the provincial government fund education the same way in Metropolitan Toronto as it does in the rest of the province of Ontario, and Ottawa-Carleton for that matter? Both those regions get zero provincial money for education where in the rest of the province they get in some cases very large chunks of education from the provincial government as opposed to the municipal government.

Why does public health get 40 cents of every dollar in Metropolitan Toronto but 75 cents of every dollar in the rest of the province of Ontario from the provincial government? Why, a couple of years ago—I don't know if it's still true—was funding capped by the provincial government to homes for the aged? You know, it has happened at the provincial level.

Mr Phillips's comments about one taxpayer, there's only one taxpayer: I guess that's something we should start every meeting with. I think every meeting that I've attended here I've heard that comment from somebody, so maybe we should all just together, at 10 o'clock in the morning, say, "There's only one taxpayer," and remember that and build from that, because inevitably somebody says it during the day and it's the key aspect.

I think there's the squeeze, there's the demand for more money than that one taxpayer has the capacity for, and the provincial government has decided that it can't fund education in Metropolitan Toronto and that the property taxpayer has to fund the whole bit. The provin-

cial government has decided that it can't contribute the same amount to public health care in Metropolitan Toronto and that the taxpayers of Metropolitan Toronto will have to fund public health to a higher degree than the taxpayers of the rest of the province of Ontario. I suspect the federal government, whether it has said it or not, has decided the same thing.

If the province of Ontario's going to put the rates of welfare up 30% on average above the rest of Canada, as I understand it—and I'd be interested if anybody else has other numbers, but our numbers show the average welfare rate in Ontario is about 30% higher than the average of the rest of Canada. If that's true, that 30% is a lot of money. I think there's some \$6.5 billion spent on welfare from the province here in Ontario; 30% of that is almost \$2 billion extra.

If that was taken out of the expenditure, then the federal government's amount, which I guess must be somewhere around \$2.5 billion—I don't know if anybody has that number here today. Do you know, Gerry? About \$2.5 billion, somewhere around there?

**Mr Phillips:** I'm sorry. What was the question?

**Mr David Johnson:** Federal payments for welfare.

**Mr Sutherland:** It would be a couple of billion, or a little over.

**Mr David Johnson:** About \$2 billion to \$2.5 billion.

**Mr Sutherland:** About \$2.2 billion, \$2.3 billion.

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**Mr David Johnson:** So if you reduced the cost of welfare by that 30% and then took that \$2 billion or \$2.5 billion on top of that reduced amount, then it probably would be about 50% again of the total cost of welfare, in a rough calculation. I'd be interested to see somebody go through that calculation.

Governments have come to the conclusion there's only one taxpayer. That one taxpayer can only afford so much. In my estimation, the governments have come to a conclusion at too high a level that the spending is even too high as it is, but to increase that spending even more is totally impossible.

All I'm saying is I suspect that somehow the federal government came to that conclusion that we can't continue to match high welfare rates in the province. Heaven knows where they'll put it up. Maybe they'll put it up 50% higher than the national average or 60% higher. When does it stop? There's only so much money available and we can no longer afford to match that. That's all I'm saying.

**Mr Wiseman:** I'd like to talk about that one taxpayer too for a second, and that one taxpayer in Ontario is paying \$52 billion in taxes to Ottawa and receiving only about \$37 billion in return in terms of services.

In 1989 it was the federal government that unilaterally capped the increase of welfare payments to the provinces to 5% and it was about that time where the number of people on welfare—because of the high interest rate and the high dollar policy putting a lot of people out of work and the changes to the unemployment insurance system started throwing a huge number of people on to the



welfare system. I think what you're looking at is somewhere in the neighbourhood of about 600,000 people on to the welfare system with a 5% cap.

If you want to take a look at the numbers, I think you'll find that the number of people who have been forced on to welfare because of the federal fiscal policies of high interest rates to curb inflation, you will find that those numbers are absolutely astronomical in terms of dollars.

But if you want to talk about the one taxpayer, the one taxpayer in Ontario is paying more money in collective taxes both at a federal and a provincial level by some \$8 billion than they're getting back in services, and that even includes paying the deficit off in Ontario.

If you take a look at that \$15 billion or \$16 billion difference between what the taxpayer in Ontario is paying to the federal government and you take out the deficit in Ontario, there's still an \$8-billion surplus going to the federal government which I think, if you want to talk about the single taxpayer in Ontario, is quite a lively contribution to the social safety net across the country. But it seems that what has happened in both the Liberal government now and the previous Tory government is that they think the federal deficit should be balanced on the back of Ontario.

Well, I think \$15 billion to this date is an awfully healthy contribution in surplus by the people of Ontario to the federal deficit, and now our services—for them to be cutting back and having to take another \$1 billion out of health and education and universities and colleges at this time, when that single taxpayer in Ontario is already paying his fair share and more of it, I think is just a little bit too much. It strikes at the very fabric of what holds this country together and that fabric is getting awfully frayed.

**Mrs Haslam:** Actually, I was just going to recommend that, if they want to have a debate, we could set one up and maybe we could get back to looking at the report and dealing with what we're here to do.

**The Chair:** Thank you, Ms Haslam, for that very good suggestion. Are there any questions from Ms Campbell at this time?

**Ms Campbell:** I just have one question concerning that second paragraph under the heading "Other Themes." Mr Carr had made the suggestion of including a comparison of federal transfers as a percentage of provincial revenues in 1984 and 1994. Does the committee wish to have that included?

**Mr Carr:** I don't think that flew too well. As a matter of fact, it crashed.

**The Chair:** Anything else?

**Mr Carr:** It'll be in the dissenting opinion report.

**The Chair:** Dissenting opinion, that's right, Mr Carr.

**Mr Wiseman:** We'll look for all of them.

**The Chair:** That brings us then to "The Future" part of this draft report, on page 6.

**Mr Wiseman:** Did we get that far?

**The Chair:** Yes, we have. There are four paragraphs, two on the bottom of page 6 and two on the top of page

7. Are there any comments or clarifications with respect to this part of the report?

**Mrs Haslam:** When you go to page 7, Ms Campbell, I must admit that I looked at that last paragraph under "The Future," and I wasn't quite sure what you were meaning by this when you said, "In its 1995 projections, the board took"—

**Interjection:** The Conference Board of Canada took.

**Mrs Haslam:** Yes, but you talk about "...assumed that the federal government will meet its deficit target...." In its projections, the board took this from the provincial transfers and \$2.1 billion from federal spending on goods and services. I'm sorry, but I'm having problems understanding exactly what you mean by that paragraph. If I'm having problems, then somebody else who wants a copy of this may have problems also. If you want to explain it to me now or cover it in a little clearer manner, I would appreciate it.

**Ms Campbell:** Perhaps it could be reworded: "In its 1995 projections, the Conference Board took \$0.5 billion of the federal budget from...." It's the federal government's transfers to the provinces. I can see your point. It could be worded a little more clearly.

**Mrs Haslam:** That would be my only request. Could you clarify that a little more clearly for people who want to read this?

**Mr Kwinter:** Again, just a matter of syntax: In the second paragraph of "The Future," the third last line, I would suggest that it say, "The federal budget would meet its deficit target," as opposed to "will," and on page 7, in the second paragraph, the first line, "that the federal government would meet its deficit target."

**The Chair:** Any further comments with respect to "The Future" section?

**Mr David Johnson:** I don't know whether to put it in here or the next section, my comment, but the first line under "The Future" says, "Forecasting organizations provided a limited number of short-term economic projections for Ontario." Did you mean two years, Elaine, by "short-term"?

**Ms Campbell:** Yes.

**Mr David Johnson:** There was at least one organization that made a longer forecast, and I would argue perhaps two that made longer forecasts.

**Ms Campbell:** The phrase "limited number" refers, I guess more specifically, to the number of variables that were spoken of, but if there were organizations that did have longer-term projections and the committee wishes to have them discussed in further detail—

**Mr David Johnson:** Should that be discussed here or under "Real Growth"? Because the forecasts that I am referring to are with regard to GDP.

**Ms Campbell:** Would you like the first sentence under "The Future" reworded perhaps to accommodate that concern?

**Mr David Johnson:** Maybe I should just say that one forecast was the Royal Bank's, and the Royal Bank indicated that a 3% growth rate in the GDP between now and 1998, so I think they're saying 1995, 1996, 1997,

1998—I interpret it to be four years—would be a 3% growth rate.

**Ms Campbell:** If I remember correctly, the Royal Bank told the committee that it had not prepared any revised Ontario figures. Perhaps I'm wrong on that.

**Mr David Johnson:** I'll quote from the Royal Bank then. How's that? It says: "Ontario's fiscal plan calls for the (restated) budgetary deficit to decline to \$6.3 billion in 1996-97 and \$4.2 billion in 1997-98 from \$10.2 billion in the current fiscal year. In our view, this fiscal plan is excessively optimistic for a number of reasons"—and they're clearly talking about Ontario.

"The projections are based on an overly generous assumption that real growth will average 4.3% per year between now and 1998. A figure of 3% would be more realistic. Moreover, we believe, interest rates are likely to be at least 200 basis points higher than assumed."

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I don't know how I could interpret that any other way than they're saying that the growth rate for Ontario in 1995, 1996, 1997 and 1998, in their view, will be 3%. Can I just seek your guidance? Should that be there under "The Future" or should that be under the next section?

**Ms Campbell:** I'm open to any suggestion. If you would prefer it under "Real Growth"—

**Mr David Johnson:** I'd be happy to leave it with you.

**Mr Sutherland:** Could go with GDP.

**Ms Campbell:** Yes, I'll put it under "Real Growth."

**Mrs Haslam:** Because the last sentence says—

**Mr Sutherland:** "The ministry's projection," so it can go on just after that.

**Mr David Johnson:** All right. I'll wait till we get to "GDP" then—

**Mrs Haslam:** Which is next.

**Mr David Johnson:** —with the agreement of the government.

**Mr Sutherland:** Yes, that's fine.

**The Chair:** Ms Haslam, did you still want to make a comment?

**Mrs Haslam:** No, that's what I was going to say. I thought it belonged under "Real Growth (GDP)" because that's where it has been kind of drawn together on this particular subject, rather than the overview. It does on page 6 mention that the Royal Bank put three caveats on, so I think it's been very clear here and I would see it going under "Real Growth (GDP)."

**The Chair:** I believe that would conclude any concerns that have been raised with respect to "The Future," Mr Sutherland?

**Mr Sutherland:** Yes.

**The Chair:** The next section in the draft report is I guess still under "The Future," but a subheading is "Real Growth (GDP)."

**Mr Sutherland:** I just wanted also the reference to how Ontario compares to the G-7 countries, a reference on growth.

**Mr David Johnson:** Perhaps, first of all, just to ask

a question, is this talking about forecasts of the G-7 countries?

**Mr Sutherland:** Yes. I believe we had information—

**Mr David Johnson:** So this is our forecast versus their forecast? Are you talking about the minister's forecast of growth for Ontario versus the G-7 countries' forecast of their growth?

**Mr Sutherland:** Yes, but I believe that figure, again—I don't have it right in front of me but I believe with that slide they are quoting other sources that indicated that. I thought OECD had done some analysis which had indicated similarly, that Ontario was going to do that. So if we want to have that specific source the minister is citing, we can try and follow up on that.

**Mr David Johnson:** I don't mind whatever information. I just can't in my mind determine where the OECD would have analysed Ontario. Normally, I think they would analyse Canada, but if they did analyse Ontario and they did so over a period of time, then I for one would like to see that.

The point I was trying to make before, which I've been guided to ask be included in this section, which I accept, and my concern is that I feel the 4.3% growth rate over a four-year period is unachievable. If indeed it's not achievable—and the Royal Bank, for one, agrees, and I believe, number two, the Conference Board of Canada agrees that it is either rosy or unachievable—the penalty to be paid in not achieving it, of course, is that the deficit calculation is partially based on the growth, and if the growth does not materialize, then that will have repercussions in terms of making the deficit higher than is forecast. That again will add to the debt and that will continue us in the problems that we've experienced in the last number of years.

I think it pays us to be very cautious about growth figures, and I'm not only talking for the two years 1995 and 1996, where perhaps there's greater consensus, but looking beyond 1996 to 1997 and 1998, and that seems to be part of most schemes or most plans to balance the budget and to hit a zero deficit.

It seems to me that the figures that are being quoted and used by the ministry are extremely optimistic. The Royal Bank certainly thinks so. The Royal Bank thinks it's over 1% too high on average. In my recollection, and perhaps Elaine would check back in the minutes of Hansard—I didn't get a chance to do it—I think the Conference Board said, though it wasn't in their brief, so if you look at the written material you won't see it, but I believe in their comments somewhere they said that after two years they expected growth to decline, and that had a lot to do with the fact that most of our growth is driven by exports and most of that goes to the United States, and the United States had experienced a couple of years of good growth and they didn't expect that good growth to continue on past 1996. So they expected the United States growth to go down and ours to suffer as a result, and my summary of their views was that they were about the 3% growth rate figure too for the four-year period of time.

I think the minister should know that (a) if the Royal



Bank, which has clearly said that, and (b) if the Conference Board of Canada has said that, then when the minister is doing his calculations for growth over four years and doing his deficit calculations based on that growth, he should be aware that there are a couple of well respected bodies that would suggest that a lower growth rate be more realistic.

**Mr Sutherland:** I don't have a problem if there are references to the out years 1997 and 1998 as to what the bodies have said about their sense of those projections. I just want to put on the record that the Ministry of Finance did indicate, of course, that it would be revising and updating its forecast information for when the budget is presented. So we'll all wait and anticipate what those forecasts may say at that time.

**The Chair:** Thank you very much. Mr Wiseman.

**Mr Wiseman:** Are we on the top of page 8 talking about employment?

**The Chair:** We're on "Real Growth," the middle of page 7.

**Mr David Johnson:** If we're in agreement, I guess we're finished.

**Ms Campbell:** Could I just verify that the committee has requested, under "Real Growth," references to the Royal Bank's four-year projections as well as the Conference Board of Canada's expectation that there will be a bit of a decline after two years, and also a reference to Ontario compared to the G-7 countries in terms of real output?

**The Chair:** Okay. If there are no further comments with respect to real growth then we are now, Mr Wiseman, at the top of page 8 on employment. Did you want to speak to that?

**Mr Wiseman:** I have some problems here in terms of the projections on employment-unemployment, and the reason I have them is because of the activities of the Bank of Canada and what Paul Martin said in his budget yesterday. What he said in the budget yesterday was that he sat down with the Bank of Canada and they agreed on what the inflation targets are going to be.

According to his budget document that was put out, A New Framework for Economic Policy, the federal government believes that if the unemployment rate drops below 8%, the Bank of Canada should kick in, increase the interest rates to drive the unemployment rate back up to 8%. In fact, according to one of the documents, the non-accelerating inflation rate of unemployment for the Bank of Canada is around 9%. In other words, the Bank of Canada is going to keep unemployment rates high to keep inflation low.

I think we need to be very cautious here in terms of predicting what the employment level is going to be and the unemployment level is going to be, because the only group that came in to talk about the non-accelerating inflation rate of unemployment was the Committee on Monetary and Economic Reform.

It seems to me that if we're going to recommend to the Treasurer, or the Finance minister, about projections on employment and unemployment, some comment has to be made in there that the Bank of Canada may very well

keep the unemployment rates above 9%, which would throw all of our projections and their projections—the Royal Bank, the CIBC, Toronto-Dominion, Informetrica, McGraw-Hill, and everybody has just sort of ignored that point, that the Bank of Canada has a policy of keeping unemployment high, between 8% and 9%. If we don't throw that in as a cautionary signal to the minister, then our previous projections on growth could be off as well.

**1500**

**Mr Jamison:** Regardless of where we are as far as capacity—

**Mr Wiseman:** Yes, regardless. It's just that if the Federal Reserve in the United States is trying to dampen the economy by putting people out of work and our Bank of Canada follows that policy lockstep—and David Crane wrote about this on Sunday, February 12, 1995, where he said that we can do better than an 8% unemployment rate. So I would like to see some comments put in here about the Bank of Canada's non-accelerating inflation rate of unemployment.

**The Chair:** With respect to this topic, Mr Kwinter?

**Mr Kwinter:** With all due respect, Mr Wiseman, who I am beginning to think of as a one-trick pony, keeps bringing up this issue time and time again. He's latched on to something and it sounds great to him, but I can tell you, I have never seen any evidence at all that the Bank of Canada determines the unemployment rate.

There is no question that the Bank of Canada has a role to play in keeping inflation under control, and that may have an impact on the unemployment rate, but I can tell you that the unemployment rate is a function of our productivity and of our ability to absorb the people who are out of work. To put into this document a statement to the effect that the Bank of Canada has a policy to keep the unemployment rate at a certain level I think borders on the irresponsible. I don't think that's the case. I'm not denying in any way that by some of their measures to keep inflation under control there may be a cause and effect, but I totally reject the concept and the idea that the Bank of Canada has a policy to keep people out of work.

**Mr Wiseman:** Could I just interject on that? In rotation, then?

**The Chair:** Mr Phillips, I think, wanted to speak. If you didn't want to speak to that specifically, then I guess it would be wise for Mr Wiseman to respond. However, you are on my list next, Mr Phillips.

**Mr Phillips:** The fact is that the Bank of Canada has certain guidelines around inflation that are set by mutual agreement with the federal government. When the Bank of Canada has attempted to get its interest rates down and move down faster than the US, get very close to the US interest rate, we ended up with a bit of a run on our dollar.

I go back to the point I made before, and that is, to a very large extent our interest rates are driven internationally and they are high in real terms because people still want a risk premium for lending money to Canada because of our high government debts and deficits. The empirical evidence of that is, among other things, as I

say, when the Bank of Canada tried to get its real interest rate down much closer to the US, suddenly we found people wanting to bail out on Canadian dollars because they believed the Bank of Canada wasn't going to provide the necessary defence for the dollar.

**Mr Wiseman:** I want to talk just briefly to what Mr Kwinter was saying, and I'm going to quote from a couple of articles, because I think it's important. In his article, David Crane says that A New Framework for Economic Policy, which is the federal document that was put out to talk about the economy—

**The Chair:** What periodical was that in?

**Mr Wiseman:** It was the Toronto Star.

**The Chair:** Okay. I didn't hear you mention that. I just thought it was important that we know where you are drawing this information from.

**Mr Wiseman:** David Crane is quoting from A New Framework for Economic Policy:

"The report states that the 'core rate' of unemployment was at least 8%. By this definition, 1.2 million Canadians could still be out of work, yet the government could claim it had achieved 'full employment.'

"The federal paper defined the 'core rate' as 'that rate of unemployment which cannot be forced lower without causing inflation to accelerate.' Economists call this the non-accelerated inflation rate of unemployment or NAIRU.

"In fact, the Bank of Canada believes the rate is closer to 9%—at which point it would be justified in tightening monetary policy to slow economic growth.

"This is what is happening in the United States." The article goes on to talk about how they're going to do that.

In Fortune magazine, an article written by Vivian Brownstein and Joseph Spiers, of January 16, 1995, "It's not that the Fed hasn't been trying to rein in growth—it raised interest rates six times during 1994—there's just more momentum out there than almost anyone had thought." This article is a rather lengthy article. It goes on to talk about the fact that they're using the interest rate increase at the Federal Reserve in the United States and in Canada to put people out of work to curb inflation.

There have been other articles that have been written about this very topic, and I think that there's enough evidence that both Thiessen, who is the current chair of the Bank of Canada, and John Crow, who was the previous chair of the Bank of Canada, have said it on more than one occasion, "We're going to increase interest rates to curb inflation." It's not a heretical thing, Mr Kwinter; it's out in the public, it's what they say publicly.

The fact that Paul Martin in his budget speech yesterday said that he'd met with Thiessen to say that that's exactly what they're going to continue to do is a matter of fact. It has nothing to do with me being irresponsible or conjecturing.

The information and the proof is there. I can amass a whole lot more if you would like, but the point of the matter is that if the Bank of Canada is going to use interest rates to curb inflation and keep people out of

work, it makes it very problematic for us to put in this document that unemployment rates are going to go down below 9% or 8%, because that is simply not what the Bank of Canada will allow to happen. And if they do allow it to happen, you're absolutely right in terms of your international comments. The Federal Reserve in the United States won't allow it to happen in the United States, but their non-accelerating inflation rate of unemployment is pegged around 6%, whereas we've pegged ours at 9%.

Call me what you will; I still think that this is an important issue that needs to be flagged and noted in this report.

**The Chair:** At this time, I have Mr Johnson, Mr Sutherland and Mr Kwinter, and the Chair thought that economists agreed that 4% unemployment was full employment.

**Mr David Johnson:** I'm not too sure what the point of all this is. Precisely, the Fed—I think it's fairly obvious—is raising, as Mr Wiseman has indicated, the rates to curb inflation, in their view, but then he immediately draws the line between inflation and employment, and indicates rather than the Fed raising interest rates to control inflation that they're raising interest rates to keep employment.

**Mr Wiseman:** They're connected.

**Mr David Johnson:** He's drawing an immediate and hard connection there, and I'm not so sure that isn't a naïve approach. I suspect there are other factors. He's also not looking at what might happen and what has happened in the past without inflation control, namely, that there has been at other times in our history, and American history I guess, a boom-and-bust cycle, perhaps with inflation being a prime contributor, when employment would suffer even more. So it's quite conceivable that the consequences of not controlling inflation could have a more dire impact on employment, could lead to higher unemployment, and I think that's certainly one of the reasons why the Fed is taking that sort of control. They're trying to even out the economy rather than have it boom for a certain period, go through inflation and then have a bust.

The other factor is that the interest rates in Canada are to a large extent driven by those who hold the money, and increasingly those who hold the money are not from Canada—I think about 65% of what's loaned through the province of Ontario today, this year, goes outside of Canada, either to the United States, Japan, Europe or someplace like that—and it's fairly evident to me at any rate that there is a concern of people in those countries holding paper from Ontario and Canada in general.

There's a risk factor associated with that. There's the political uncertainty of the Quebec situation. There was the uncertainty of the Canadian budget. Now perhaps some of that uncertainty has been removed, but still there are continuing large deficits and the debt will continue to grow in Canada.

The deficit program that was announced by the federal government is not a deficit elimination; it's simply a deficit reduction program over three years down to \$25



billion. What happens beyond that we still don't know. We have to trust that the federal government will do the right thing at that point in time.

**1510**

So there's still risk, there's still uncertainty out there, and I think to dismiss those people from Japan, Europe or the United States who hold Ontario paper as not looking for a fairly healthy rate of return to balance off that risk I suspect is to ignore part of the point.

There was one other deputation that was made that commented on employment and unemployment: the Canadian Bankers Association. I just have a small quote picked out of what they said but I don't have the larger context. The small quote says, "Some Canadians appear to still not understand the link between persistent deficits and job creation; that to create sustainable jobs and growth, we must stop the growth of the debt." That's a direct quote from the Canadian Bankers Association.

I'm not sure if the Canadian Bankers Association qualifies as one of our forecasters. I'm still not able to determine what puts you into the forecasters' category and what puts you into the non-forecasters' category. I think they would consider themselves to be forecasters. But that seems to be a very relevant point as well when we're talking about employment and unemployment. The Canadian Bankers Association is making the point that if we let the deficits run up and if we let the debt run up, then we'll certainly have higher interest rates. That will be bad for economic growth; that will be bad for job creation. Just ask the Ontario home builders what a 1% increase in interest rates will do to the home-building industry. Every increase, they can almost measure the number of fewer homes that will be built in Ontario.

**Mr Jamison:** And jobs.

**Mr David Johnson:** And jobs. That's right. Every one of those homes represents jobs. So that increase is important. As the deficits run up and the debt runs up in Ontario and in Canada, they contribute, as the Canadian bankers have said, to higher rates and consequently higher unemployment.

I would ask Elaine to work that comment in, because I think we all agree around here that employment and unemployment, wrapped together, are probably the number one issue. To us they're certainly the number one issue in Ontario. We should be looking at whatever steps are possible to put the groundwork in play to allow for more jobs to be created. The bankers association says right here in its comments that deficits are a negative factor and the debt is a very negative factor in terms of creating jobs. I don't know if that can be included in one of these two sections or not, since they may not be counted as a forecaster, but if they can be, then I would ask that the Canadian Bankers Association comment be included here.

**Ms Campbell:** Could I make two suggestions? If the committee agrees, we could add a footnote to that section or it could be discussed in the next section of the paper under job creation and employment.

**Mr David Johnson:** Either one would be fine by me.

**Mr Sutherland:** Actually, it would seem to me that

the comment Mr Johnson is asking for from the Canadian Bankers Association may come under some of the comments we have on the issue of the deficit in general and its impact. It's more of a comment than a forecast. That is my sense of the comment, and that would be a place to put that.

Just in terms of how some of the information is presented, in the first sentence on employment, you have the Ministry of Finance's projections. I think in the chart they said that it would average 142,000 jobs for the next four years; that is what the ministry forecast is. Perhaps we could just add that in as well.

I also believe the Conference Board made some references to what it thought job creation would be this year in Canada, and I thought that might be something we want to add to provide a little more perspective.

**Mr Kwinter:** If I can just make one last comment, hopefully the last comment on this particular issue, the classic definition of inflation is too many people chasing too few goods. Because there are too few goods and too many people who have money to buy them, they drive the price up. The role of the Bank of Canada is to try and keep a balance so that the capacity of the economy to produce those goods keeps pace with the ability of people to buy them. The direct short-term correlation of that is that you could have a possibility where the Bank of Canada puts the brakes on because it sees inflation going up, which means that our interest rates are going to go up, all of those things, that it raises the interest rates to dampen it. The short-term result of that is that some people may not be able to have the jobs that they normally would. I have no problem with the cause and effect.

I do have a problem where it is perceived or it's presented that the main purpose of the Bank of Canada's fiscal policy is to keep people out of work, which just isn't true. That's my concern. That might be a spinoff, unfortunately, but the major thrust of the Bank of Canada is to make sure that interest rates stay as low as possible, which means that there isn't an artificial component built in because of inflation. That's all there is.

**Mr Wiseman:** I'd like to thank you for that, Mr Kwinter, because that very clearly defines the difference between the way you think and the way I think. Too few goods being chased by too many people: The traditional view on how that problem should be solved is that you hire more people to produce more goods, so that you bring the price of the goods down because of supply, not because of demand. If what we're going to say is that we're going to take the inflation rate out of the economy by laying people off, by putting people out of work so that they can't buy, that to me flies in the face of planning, of traditional economics.

I didn't say that the sole reason for the Bank of Canada was to keep a non-accelerating inflation rate of unemployment.

**Mr Kwinter:** Yes, you did.

**Mr Wiseman:** I said that's one of the major reasons that they increase their interest rates.

I have found another quote that you will find interest-

ing, from January 26, 1995. It's a quote from Steve Poloz, who is the head of the central bank's research department, and he said that, "The non-inflationary rate has since climbed by a percentage point, mainly because of substantial rises in payrolls." In other words, he's saying that it used to be 8% but now it's 9%.

We'll get into this discussion probably under the inflation section, because I have a few comments there, but for us to ignore that one of the reasons the bank raises its interest rates is to put people out of work to keep the consumer price index or the inflation rate low is to fly in the face of what a whole group of people are telling us is the case. I'm very pleased that you articulated in that way your monetarist view of how the problem should be solved, because that's the reason we've got a problem: because we have such a high unemployment rate.

**Mr Kwinter:** That's the reason why you are where you are in the polls, because you have a view of how this economy should run that is totally opposed by most people who have to deal in the real world. It's as simple as that.

**Mr Wiseman:** Except for the hundreds of thousands of people who are unemployed because the Bank of Canada continues to increase its interest rates to put people out of work deliberately instead of doing what they know in their own minds is the only logical choice, and that is to be called back to work to produce more goods so that the price of those goods will come down so that more people can buy them and more people can be employed. I haven't had a more clearly defined difference in terms of the differences between our parties. You think it's okay for people to be out of work. I don't.

**Mr Kwinter:** You're putting words in my mouth that I didn't say.

1520

**Mr Wiseman:** No, I'm not.

**Mr Kwinter:** Yes, you are.

**Mr Wiseman:** You check Hansard. You said this: "If some people lose their jobs, well, that's part"—

**The Chair:** Order, please, Mr Wiseman. We'd like to continue with respect to coming to some conclusion with a consensus on employment and unemployment in this draft, and I would ask Ms Campbell if she has any questions at this time with respect to what's transpired.

**Ms Campbell:** I'd just like to confirm if the committee was agreeable or not agreeable to Mr Sutherland's suggestion to include under employment a reference to a job figure that the minister had provided the committee, and also a reference to the Conference Board and job creation in Canada or Ontario.

**Mr Sutherland:** No, it was the Canadian figure, but it gives some perspective.

**The Chair:** If there are no further comments with respect to employment, unemployment—now, I'm presuming we've touched on both of those topics and we should probably go on; in fact, we even touched on the topic of inflation, but I'll ask if there are any comments with respect to—

**Mr Wiseman:** I'd move that we add a comment or two about the Bank of Canada, the non-accelerated inflation rate of unemployment in this section as a warning to the Finance minister.

**Mr David Johnson:** Where would that come from?

**Mr Wiseman:** That could come from the Committee on Monetary and Economic Reform. It could come from—

**Mr David Johnson:** But I understood there was great reluctance on behalf of the government to introduce new material.

**Mr Wiseman:** We are adding the Conference Board comments and I—

*Interjection.*

**Mr David Johnson:** No, they made those comments.

**The Chair:** They made a presentation.

**Mr Wiseman:** They made the presentation.

*Interjections.*

**Mr David Johnson:** All I'm saying is that if this is to be manufactured—

**Mr Wiseman:** It's not manufactured. It's here in the—

**Mr David Johnson:** Then I think the government's approach, and I would assume it would be consistent, would be to not include anything that was manufactured.

**Mr Sutherland:** Could I just say that my sense and understanding of it is that what Mr Martin articulated yesterday was already the agreement in place between Mr Martin and the Bank of Canada in terms of targets for inflation. So I think those assumptions of what the Committee on Monetary and Economic Reform are indicating are built into these projection figures.

**The Chair:** Ms Campbell, are you clear on what—

**Ms Campbell:** No. I would like further clarification as to whether or not the committee wants to expand on the presentation made by COMER.

**The Chair:** I was looking for some agreement with respect to the suggestion that Mr Wiseman made that there be some notation or some comment with respect to non-accelerated inflation rate of unemployment. Do I have an agreement from—Mr Sutherland.

**Mr Sutherland:** My sense would be if research would find the comment from the COMER presentation then, and add that to—

**The Chair:** I think that's a clear direction.

**Mr Sutherland:** And cite them as the source for it.

**Ms Campbell:** COMER, again, is not considered a forecaster. Does the committee wish to include them under this section or make reference to them at a later—

**Mr Sutherland:** Maybe what we can do is make some reference under "Economic and Fiscal Policies," then, make some reference there to it. Fair enough.

**The Chair:** So I think the direction is that we won't include it in this section.

**Mr Phillips:** I gather that the researcher is going to comb through the presentation and find a suitable quote. Is that the direction?



**The Chair:** I think she's looking for a specific quote, Mr Phillips, with respect to—

**Mr Sutherland:** To the non-accelerated—

**Mr Phillips:** My recollection—

**The Chair:** —but that it won't be included in the section we're dealing with right now.

**Mr Phillips:** It'll be in some other section?

**The Chair:** Yes, as I understand it.

**Mr Sutherland:** Yes, because we're dealing with the forecasters here.

**Mr Phillips:** Fine. I guess we'll get a chance to see it when it comes back, then.

**The Chair:** I'm sure we will, time permitting. That would then conclude inflation, which brings us to interest rates. I think we're all aware all these things are very closely related and interrelated. However, the topic of interest rates is our next subject-matter. Any concerns with respect to how the draft reads regarding interest rates? Seeing none, I would presume that this paragraph is acceptable to the committee members.

The next topic is the Canadian dollar, and there is one paragraph that comments on the Canadian dollar. Any comments from the committee members with respect to that? Seeing none, I presume again that's acceptable.

Under the topic of housing, "Very little was said about housing," says the first line, and I guess that—

**Mr Wiseman:** These housing figures: If I remember correctly, the Ontario Home Builders' Association wouldn't agree with these. I think they were saying something in the neighbourhood of 45,000 and that would be the absolute top max and they think their numbers are even high.

**The Chair:** Again, I guess the problem is that they weren't a forecaster. Therefore, their figures with respect to housing starts would be represented in another section of this report.

**Mr David Johnson:** A weird kind of report. It would be easier if it was all together in one place. This way it's so difficult.

**The Chair:** And I guess, to make it clear, that just reflects that the statistics vary from presentation to presentation and aren't always exactly the same.

**Mr Kwinter:** Can I ask that the researcher see if there's some way of restructuring that first sentence, in that when you say, "Very little was said about housing," it may give the impression that it is of no concern. The mere fact that in the forecasting section there wasn't a lot of reference to it: I'd like to see it say the same thing but sort of in a—

**The Chair:** That first sentence that you just said, Mr Kwinter, I think would be a good sense of—

**Mr Kwinter:** Yes, just in a more positive wording.

**Ms Campbell:** Or the sentence could be taken out entirely and the paragraph could begin, "The Conference Board predicted a slight but anaemic increase..."?

**Mr Kwinter:** Sure. That would even be better.

**The Chair:** I believe we have an agreement that that sentence be removed. Thank you, Mr Kwinter.

**Ms Campbell:** I have one question before we continue on to "Economic and Fiscal Policies." The memo that was distributed to the members this morning contained a couple of issues that had not been covered in the draft that was sent to the members last week.

One of the requests that had been made on February 16 was for information on revenue projections. Those were not included in the draft. My question to the members of the committee is how they would like to deal with the issue of revenue projections at this point in time.

There were some figures distributed by the Ministry of Finance in response to some questions Mr Phillips had sent to the ministry before the committee hearings started on February 6, and there was a table in response to a question that had been asked about the province's revenue outlook for 1994-95 and the next three years. Now, that table was included as attachment A in the memorandum that was distributed this morning. Would the committee like reference made to the revenue projections made in that particular table? That table includes taxation revenues, other revenues and federal payments, for a total revenue figure.

**The Chair:** Any comments with respect to that question?

**Mr Carr:** Yes. I have no problem with it.

**The Chair:** It would appear that that's acceptable to the committee members.

1530

**Ms Campbell:** Where would the committee members like references to revenue projections to be included? Under the section "Provincial Budget, Deficit and Debt" or under the heading "The Future"?

**Mr Kwinter:** I would suggest it should go under the "Provincial Budget, Deficit and Debt."

**Ms Campbell:** As a continuation of the paragraph setting the minister's presentation.

**Mr Kwinter:** Yes.

**Mr Carr:** I was going to say the same thing and then possibly before the theme section, "Other Themes." Put it in before that.

**The Chair:** It's right at the end of the "Provincial Budget, Deficit and Debt" section.

**Mr Carr:** Yes. The same section that Monte's suggesting.

**The Chair:** Thank you. It would appear we have agreement with respect to that. Unless there are further questions, that then brings us to "Economic and Fiscal Policies," the bottom of page 9. Any comments or concerns with respect to this section?

**Mr Sutherland:** I guess this is where I would think some of the comments by my colleague Mr Wiseman may be brought in just in terms of noting once again that there are certain economic factors we don't have control over, interest rates being one of them because they're set at the federal level, and could note the comments from COMER about "the accelerated rate of inflation," I believe was the terminology.

**Mr Wiseman:** "Unaccelerating inflation rate of unemployment."

**Mr Sutherland:** Non-accelerating rate?

**Mr Wiseman:** "Non-accelerating inflation rate of unemployment."

**Mr Sutherland:** Okay, "The non-accelerating inflation rate of unemployment," and that it would be appropriate somewhere here under "Economic and Fiscal Policies" to make note of the federal government's influence in some of these areas and also COMER's comments on that.

**Mr Carr:** I was just going to say what the researcher had put together looks fine for me. If the intention is to give advice to the minister, obviously you can touch on the interest rates because that's a big factor. If we're to get into debating what the federal government should be doing with regard to interest rates, then we should all quit and run federally. I think the section we've got in there touches enough on it because it does affect the whole projections of revenue and so on.

Quite frankly, if this is going to be a recommendation to the provincial Minister of Finance to get into some of the theories, and notwithstanding the fact that we disagree on them with Mr Wiseman, just from the standpoint—we can talk all we want about the federal government, but unfortunately the Minister of Finance can't do a thing about interest rates, so we should stick to the things that we can do and influence the minister on. Quite personally, I think the amount we've put in there under interest rates is acceptable to me.

**Mr Sutherland:** If I could just respond to that, I think we'd agreed under the interest rates we were talking about the forecast. What I'm asking for in this section is just to be noted that we all understand that there are other factors that influence the provincial budget, interest rates being one of them, but that has more to do under federal jurisdiction than provincial jurisdiction. I thought it would be important to just have some comments noting those. There may be a few other federal factors of influence there, and then that would be an appropriate place just to tie in the COMER comment about advice on what interest rate policy should be.

**Mr Wiseman:** I'm not going to belabour this. I have a really quick comment. A 1% increase in interest rates: that's \$165 million to the interest payments in the province of Ontario. For us not to include a cautionary signal at some point in this document about the non-accelerating inflation rate of unemployment and the Bank of Canada's policies to raise interest rates or to be forced into raising interest rates by the Federal Reserve in the United States, to me, does not do our job.

I think there has to be a cautionary signal that we are aware of what we've been told, other things that we've read, and that the Minister of Finance should be concerned about the fact that projections on unemployment and on interest rate payments over the year could be thrown out of whack because of an action by the Bank of Canada which would be based on their perception of what is causing inflation to go up. I'm just going to leave it at that because I think I've made my point more than once.

**The Chair:** You have, Mr Wiseman.

**Mr Kwinter:** I've looked at the section under "Provincial Deficit and Debt." If the government side wants to include that statement, I have no quarrel with it; I don't agree with it but they can include it. But I don't think that's an appropriate place to do it.

The first paragraph in this section deals with the advice that was given to us on how to establish clear fiscal priorities and implement an explicit debt reduction strategy, and then the rest of the whole section deals with deficit reporting and basically addresses the problem that the auditor has. There's nothing else in there, and to have this particular statement stuck there, totally out of context, to me doesn't read properly, doesn't float properly. I think we have to find a place to put it; I just don't think that's the place to do it.

**The Chair:** Thank you, Mr Kwinter. Any suggestions where it might go?

**Mr Kwinter:** I don't know. I haven't—

**Mr Sutherland:** I guess I was suggesting that it would maybe somehow be incorporated either into the first paragraph, before "Provincial Deficit and Debt," or, if it doesn't incorporate into that first paragraph, just add it as a second paragraph before "Provincial Deficit and Debt," noting that there are some factors there. That's what I was suggesting.

**The Chair:** Any further comment with respect to that?

**Ms Campbell:** Is it then the committee's wish to include another paragraph or a line before the heading "Provincial Deficit and Debt" stating to the effect that the committee recognized the role that other factors play in influencing the development of provincial economic and fiscal policies, for example, interest rates?

**Mr Sutherland:** Sure.

**The Chair:** Everyone's agreeable to that? Okay. We are then at the heading "Provincial Deficit and Debt," the middle of page 10. Comments?

That brings us to Mr Kwinter.

**Mr Kwinter:** Can I make a comment on page 12, the last line of the first paragraph? I would recommend that we change that number from \$1,450 million to \$1.45 billion. I think most people reading that will not understand what that number is.

**Mr Wiseman:** Okay.

**The Chair:** If I'm not mistaken, that number was probably printed that way as that was the way the number was reported in the ministry document. Is that right?

**Ms Campbell:** Yes.

1540

**The Chair:** We're now at the larger section, "Deficit Reporting," to which Mr Kwinter has noted a change on page 12. Are there any other comments with respect to pages 10, 11, 12 and 13?

**Mr Sutherland:** On page 10 in the second paragraph it says, "He felt that the statements, the result of modified cash accounting procedures, did not fairly present expenditures for that fiscal year." I guess I'm just wondering where the source for that comment came from, whether the auditor stated that here at committee or whether he's



referring to his report of the public accounts on 1992-93.

**Ms Campbell:** In response to your question, it's his statement with respect to 1992-93, and there is a footnote from the end of that particular paragraph on page 11, at the bottom of the page.

**Mr Sutherland:** Okay. I guess I'm not sure how we're going to resolve this, because I have the auditor's report and his note from the public accounts of that day. In the one paragraph, he says, "In my opinion, except for the failure to record expenditure in the year in which it has been incurred as described in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the province's consolidated revenue fund." This line here seems to be inconsistent with what was said at that time, so I don't know how we reconcile those two different statements.

**Ms Campbell:** So you're speaking with respect to the comments on the 1992-93 provincial public accounts?

**Mr Sutherland:** Yes, that it did not fairly present expenditures for that fiscal year, and yet in his actual statement he did say, "These financial statements present fairly, in all material respects...." Now, I haven't reviewed the Hansard—

**Ms Campbell:** I'll go back and check that particular document.

**Mr Sutherland:** Okay. It just may require some clarification as to how that statement was presented then.

**Mr Carr:** Just on the same point, what the auditor said, I don't have it with me, but the auditor did give us a one-page sheet that I think had some graphs and figures which were self-explanatory. I would suggest that in this section we use the figures that he presented in his one-page release to us in here. That would help explain exactly what he meant. His presentation was very simple. If the researcher will remember, he dropped a one-page report and I think it would be very helpful if we incorporated that in this section so that everyone will know very clearly what he meant to say.

**Ms Campbell:** On February 16, when the committee was giving report-writing instructions, the question was asked, did the committee wish to have that particular table included in the report? The opinion of the committee was that no, that table would not be included. However, on page 13, the middle paragraph, there is reference to some of the figures cited in that particular table. Would the committee like to have more detail? Let me repeat that. Would the committee like to have more in the way of numerical detail from that particular table inserted in this paragraph?

**Mr Phillips:** I think it would be worthwhile, because I think in describing transactions of the previous fiscal year, you did. I think that's the page you were referring to, Mr Carr, and it points out that there's the deficit per budget of \$8.5 billion and then what the Provincial Auditor calls the real deficit of roughly \$10.5 billion, and he goes on to outline the various areas where in his opinion it doesn't reflect financial reality. So it would be worthwhile because, as I say, I think in an earlier paragraph you talk about—actually, on page 12 at the bottom—the transactions that took place the previous year.

**Mr Sutherland:** It's highlighted. I would just say that we have, what, three or four pages on this specific issue. There is quite a bit of detail there, so I'm not sure there is a need for a lot more specific figures to be put forward. We outline the history on the public statement, outline the auditor's concerns, particularly his concerns regarding transfers, some of the loan-based financing etc. That's all outlined in there, so I'm not sure that we need additional figures put in.

There are a couple of comments that I would like some addition to, that is, the two statements that were certainly made by the auditor that the budget is not another set of the books and his acknowledgement that it's not his role to audit the budget. I think they probably come into play either on page 12 or page 13. I can't really at this stage cite the exact spot where they should go in, but I think those two comments need to be acknowledged.

**Mr Carr:** The reason I wanted to put them in there, and I didn't get the original one which I thought was simpler to look at, the graphs, but I would support as a compromise what Gerry suggested, the reason being the auditor went to a great deal of time to put that backup material to justify his comments. I was told this morning that we might not always agree with what's in the report but we should be telling it like we heard it, except when in detail it is critical of the government, then as we hear today, just now, we are told we have enough info. When it fits our purpose, there's enough info already there; when it doesn't, then we like to expand on it.

I would agree with Gerry that it should be in there. I'd forgotten, Elaine, that we did try to get it in originally and the government didn't put it in. Failing that, I'd like to have at least the information that Mr Phillips is requesting be put in there, because I think the people of this province would like to hear about the auditor and the material he put forward.

**The Chair:** Ms Haslam.

**Mrs Haslam:** Actually, I think you should settle this argument before we go on to what I want to do, because I had a comment.

**The Chair:** Then we'll go to Mr Sutherland first.

**Mrs Haslam:** I had a comment before you leave page 13 about the bottom paragraph, so before you go on, would you please come back to me, because I have something I want to say.

**The Chair:** We'll get back to that, yes.

**Mr Sutherland:** I guess my only point is, if I look at the issue here, we have roughly about four pages of comments on the auditor's comments. Obviously, of any of the topics in this document, this one has been given the most amount of time and attention. So to indicate that somehow the issue is being downplayed or something like that, I don't think that's the case, given the fact that the auditor was one presenter out of many presenters. I know others did comment on it. I don't think we can say that there isn't much attention being given to this issue.

Just in terms of a couple of other comments that I think should be acknowledged, I believe the auditor acknowledged as well that the Public Sector Accounting and Auditing Board hasn't developed standards on how

capital should be dealt with, as to whether it should be amortized or what have you. So some reference to that probably should fit into these pages as well.

**Mr Carr:** One quick point on having enough for the auditor in there: In most of the sections, we've weighted heavily and put in a lot of what the Minister of Finance has said. Ironically as you know, as I said earlier, this report is supposed to be advising him and a lot of what we're doing is reporting what he said to then advise him, which to me is a little bit ridiculous. Having said that, the fact we've put in the Minister of Finance as much leaves us room to say the auditor, who in my opinion should be listened to—then we're saying to him, "Sorry, we've got enough in there."

He was not just one presenter. It is the first time an auditor has come before this committee in the history of this province to articulate a problem that he feels is out there. So I think we should expand on it. I don't want to go on too long with it because I doubt whether we're going to win this battle, but on the one hand we give a lot of time and space in the report to the Minister of Finance, I would say pushing his slant on what is happening in a report that's supposed to recommend to him what we do—to me that's a little silly—and at the same time, we say to the auditor, who for the first time in the history of this province comes forward with some information, "No, we've got to cut him down because he has enough information in there." I just think that's wrong, but I suspect I'm going to lose that battle.

1550

**Mr Sutherland:** If you go through and read these four pages, there are all kinds of comments here from what the auditor said, so to say that somehow we're not reflecting the auditor's comments is simply not accurate. Reference to what the auditor has said, what he has asked regarding the public accounts and the change to the accrual system is noted in here. His comments on the budget, what the auditor would like, how the auditor would like the budget to be presented, those comments are all reflected in here. I just want to say I don't think that's something that's not being dealt with.

I'm sorry, I did have one other issue I wanted to raise. I'm not sure if this is the one Ms Haslam wanted to raise or not, but we also had the gentleman from the Ontario Road Builders' Association make some comment about how governments should be amortizing capital investments and his sense of supporting that direction. So some reference to the comments from the gentleman from the road builders' association probably would be appropriate in this discussion as well, about how to amortize public capital.

**The Chair:** Ms Haslam, is this an appropriate time?

**Mrs Haslam:** I think there were two presenters who made a comment on the auditor's way of doing budgeting and disagreed with the auditor, and that was one of my points. I didn't realize it was the transportation, but I remembered that there was some comment on the way business handled its capital, and that's exactly what I wanted to see reflected in here also. I agree with Mr Sutherland. He has picked out one of the points that I wanted to have on page 13.

**The Chair:** And the other point?

**Mrs Haslam:** No, they all relate to the same thing, so I should be okay if that information is just there.

**Ms Campbell:** Could I ask you, Ms Haslam, what other organization made that particular—

**Mrs Haslam:** I apologize—

**Mr David Johnson:** I think it was the Ontario watermain and sewer association.

**Mrs Haslam:** Actually, you're correct, and I appreciate that. Thank you very much. I just remembered I did this at home, and I didn't have the Hansards at home, and maybe this is an apt time to thank you for getting this ready so I could have the time to go over this and have comments, but I went over this at home and didn't have the Hansards available. I do remember that there were a couple, and that was the other one. That comment would be fine.

**Mr David Johnson:** I think that particular organization, the watermain and sewer association, I believe it is, was most supportive of the institution of the crown corporations in particular. They saw that as a benefit for funding many projects through the province of Ontario. I think they estimated some \$2 billion a year in terms of financial requirements that would be required.

Just a couple of thoughts I had on this: It's hard to understate the importance—to me, at any rate—of the auditor's position. To describe the auditor as just another deputation I think is understating tremendously the position of the auditor, the position that the auditor holds in the province of Ontario. I think the members of the Legislature, and to some extent the people of the province of Ontario, look to the auditor to provide the kind of scrutiny and to ensure that the finances are handled properly in the province of Ontario.

We only need to look at the recent developments in—what's the name of that bank?

**Mr Sutherland:** Barings.

**Mr David Johnson:** —where one of its buyers, I guess, a rogue buyer he's described as—

**Mr Sutherland:** See, look what happens when you don't have any regulation.

**Mr David Johnson:** —went out of control without the proper controls and sunk the organization to the extent of \$40 million, I think it is—am I out?

**Mr Sutherland:** It's \$800 million.

**Mr David Johnson:** It's \$800 million—to realize how important controls are. There's a bank that's out of existence and there are I don't know how many employees who are out of a job. This is important in the private sector and it's important even more so, I suspect, with public funds, such as are being looked at here in the province of Ontario.

I think it's most important that the auditor's comments be given prominence, and perhaps that prominence should be given through the chart that the auditor provided. It clearly outlines his concerns with regard to the way the books are being kept in the province of Ontario.

Having said that, and I gather the government isn't going to support that, I must say I was pleasantly surpris-



ed, and I know that Elaine is in a tough spot, but I think there was a comment when we started this debate back a couple of weeks ago that there'd be one paragraph about the auditor—I remember that being alluded to—although all the typing is double-spaced, so if this is all put together it's not quite as many pages as it looks. But still it is clearly more than the one paragraph. I would compliment legislative research on putting in more information than I suspected the government wanted to see, frankly.

I think she's fulfilled her duties quite well in specifically mentioning the main concerns of the auditor with regard to the fact that moneys paid to universities, schools and hospitals were being treated as loans, loans that somehow were to be paid back, but that the auditor clearly indicated these are not loans, that there is no hope of that money ever being paid back from independent sources. Yes, in a circuitous route the government will give it money so it can pay back its own loans, sort of thing, but that's not what constitutes a loan; that's what constitutes a grant and that should be listed as a grant. That message may not have gotten through yet such that the budget apparently will not be constructed that way in 1995 unless the Minister of Finance has a change of heart, but at any rate that comment is reflected clearly here by legislative research through the auditor's comments.

I think the job that's been done here is beyond my expectation. If we had free rein to make the auditor's comments even more clear than that would be better, and in particular his chart, but at least—

**Mr Jamison:** What about the whole report?

**Mr David Johnson:** The whole report, yes, absolutely, but it's just hard to understate the need to have the auditor's comments considered carefully.

**Ms Campbell:** I'd like to clarify a few points. On page 13 in the middle paragraph, both Mr Carr and Mr Phillips had requested more numerical detail from the table that was presented to the committee by the Provincial Auditor. Is that the committee's wish?

**The Chair:** It would appear that we don't—

**Mr Kwinter:** I'm waiting. Are you going to call it to a vote? Certainly I'm in favour of it.

**The Chair:** It certainly wouldn't appear that we're going to have a successful vote, but we can at this time call a vote. I'd like a formal motion put forward, unless you'd like me to keep it simple and say, are the members in favour of additional information? All those in favour? Those opposed? I guess we won't have any more information with respect to that paragraph.

**Ms Campbell:** I'd just like to review what Mr Sutherland and Ms Haslam requested. Mr Sutherland had requested that there be further reference to the auditor's statement that the budget was not another set of books and that it was not his role to audit the budget. You also made reference to the PSAAB not having developed high standards in dealing with capital. Is it the committee's wish to include those references as well?

**Mr Sutherland:** I'm sorry, there's the one other, the reference from the road builders—

**Ms Campbell:** And the joint water—

**Mr Sutherland:** —and if the watermain association made reference too in terms of their comments on amortizing capital.

**The Chair:** It appears we have agreement with respect to that. Does that conclude your questions? Any further comments on the auditor's section of this draft report? Seeing none, that moves us to page 14 and the heading "Taxation."

1600

**Mr Kwinter:** On I guess it's either the third or the fourth paragraph, depending on how you classify the third paragraph, the paragraph that starts, "Witnesses commented on a number of specific tax issues," considering that later on in our report under beverage alcohol and food services we actually refer to the fact the Ontario Restaurant Association did not recommend harmonization, I think we should modify the second sentence to say that there was almost full and qualified support for the harmonization, but there certainly wasn't absolute support, because we have in the report later on that they are not recommending harmonization.

**Ms Campbell:** The line reads, "There was full and qualified support..." Would you like that rephrased, "There was some full and some qualified support..."?

**Mr Kwinter:** No. What I'm saying is that the Ontario Restaurant Association didn't give either qualified or full support. They were opposed to it.

**Ms Campbell:** I think the next line says, "One group called for its elimination." It didn't specifically name the ORA.

**Mr Kwinter:** I'm not sure that my reading of what they wanted was elimination. I think their concern was that all of their members had what they considered to be an incredibly expensive keying system on their cash registers and that to convert all of that again after they had converted it once to accommodate the GST would be counterproductive. I think if you take a look at your own report—I can't remember the exact—we could find it.

**Ms Campbell:** Page 18?

**Mr Kwinter:** Page 18, very good.

**Ms Campbell:** The second paragraph, towards the bottom.

**The Chair:** The very last sentence.

**Mr Kwinter:** It says, "(Harmonization of the GST with the PST will exacerbate the inequities embodied in the GST with respect to the purchase of food products.)"

**Ms Campbell:** I see. They may have supported the elimination of the GST, but they did not offer their support to harmonization.

**Mr David Johnson:** They were opposed to it.

**Mr Kwinter:** They were opposed to harmonization. All I am saying is that we should just qualify, as we've done earlier, that almost everybody said something, but not everybody. I don't think it's fair for them to say, "Well, we certainly weren't part of that, yet it says that we were."

**Mr Larry O'Connor (Durham-York):** In fact, I'd go so far as to say that the third line is in complete contradiction to the second line. "One group called for its

elimination" certainly isn't full and qualified support for harmonization. What I'd say is, I agree with Mr Kwinter, if you couldn't in trying to qualify that put a word to help qualify the qualified support.

**Ms Campbell:** I think that in retrospect I realize it should have read, "There was full and there was qualified support for the harmonization...."

**Mr David Johnson:** And there was opposition.

**Ms Campbell:** Yes, okay. But I will qualify the statement to improve the wording.

**Mr David Johnson:** Just to back that up, my recollection, which I think is fairly clear, is that there were no ifs, ands or buts about it. The Ontario Restaurant Association does not support harmonization of the GST and the PST. I don't know what product you're ending up with here, but whatever it is should reflect the fact somehow that they do not support that harmonization.

**Mr O'Connor:** That's on 18.

**The Chair:** The bottom of page 18.

**Mr David Johnson:** Well, I see there on 18, but I'm still looking at the words on page 14, which I think are going to be changed. The way they stand here right now, one could interpret that there was full support for the harmonization of the GST and PST but it was qualified in various degrees. Is that what you meant? I don't know exactly what you did mean by that.

**Ms Campbell:** Could it be reworked to read: "Witnesses commented on a number of specific tax issues. Some offered full or qualified support for the harmonization of the GST and PST. One group called for its elimination?"

**Mr David Johnson:** I don't know. When you say "its elimination"—

**Ms Campbell:** Oh. Yes, it should be the GST.

**Mr David Johnson:** —I guess you're referring to the GST.

**Ms Campbell:** Yes.

**Mr David Johnson:** Yes, I believe that's true, but they also spoke against the harmonization, so it would be more fair to say one group called for the elimination of the GST and, in the absence of that, that the GST and the PST not be harmonized.

**Ms Campbell:** Yes.

**Mr David Johnson:** Something of that nature is what I understand is their position. The other comment I would make is that the Canadian Tax Foundation had had some good information with regard to the level of taxation, but it was primarily in Canada as opposed to Ontario. It did measure Canada with regard to other G-7 countries and OECD countries—primarily, I guess, OECD countries—and it did measure it as a percentage of GDP.

I think it would be somewhat useful to show those comparisons. I'm thinking particularly of the personal income tax and the property tax, which I notice is mentioned down here a bit later, on the top of page 15. If there could be some reference made to the Canadian Tax Foundation's measurement of those two taxes, I think it might be useful.

**Mr Kwinter:** I don't want to belabour this point, but I think, if given the opportunity, every single deputant who appeared before us would have called for the elimination of the GST. The fact that someone actually did call for it is interesting and should probably be referred to, but I think the point is that the Ontario Restaurant Association, from my recollection, called for the elimination of the GST. Having said that, they implied that if it isn't going to be removed, they would oppose harmonization.

I just want to make sure that the sentence that says, "There was full and qualified support for the harmonization of the GST and PST," does not reflect the feelings of the Ontario Restaurant Association. The separate issue, about eliminating the GST, is a separate issue. That was really the point.

**The Chair:** Would it be considered important and significant enough that we actually mention that the Ontario Restaurant Association didn't agree with this and they were the—to the best of our recollections?

**Mr Kwinter:** We say that under the—

**Mrs Haslam:** We've stayed away from mentioning other people in this.

**The Chair:** Okay, I understand.

**Mr Kwinter:** We say that later on.

**Mrs Haslam:** Yes, but under "Sectoral Issues." It would come there.

**Mr Kwinter:** Very good.

**The Chair:** We then continue to deal with the heading "Taxation," and that brings us to the middle of page 15. Are there any further concerns with respect to this?

**Mr Sutherland:** Yes. In the first paragraph on page 15—I think we talked about municipal taxation. I think we also heard several comments about education taxes and somehow that should be separated out from municipal taxation and some comments made on that.

**The Chair:** Thank you. Is that a specific enough direction?

**Mr Kwinter:** In all of the deputants who appeared before us, I think one who made, certainly in my mind, a very significant observation was the shopping centre industry. The fact that their members, who are located in large malls—their assessment is based on not only the space that they occupy within that mall, but the volume of business that they do, and the fact that the so-called big box outlets could be operating across the street and their sole assessment is based on their real estate value.

I think that clearly there is some inequity to the detriment of some small operators who happen to be in a shopping centre and I thought the presentation was very dramatic and very effective. I think it should be reflected as a concern because I think they have a valid concern, and that issue should be addressed. It would seem to me that this is the place to put it. I would welcome any comments or observations.

1610

**Mr Wiseman:** I'm not clear what you're asking in terms of comment here.

**Mr Kwinter:** Were you at that presentation?



**Mr Wiseman:** No, I wasn't.

**Mr Kwinter:** All right. What had happened is that the—whatever they're called; I'll do apologies to them. They have some organization and I can't quite recall the name of it, but it's the shopping centre owners/operators. What they are saying is that if you are a tenant in a shopping centre, the better you do, the higher your assessment, which means that everybody is apportioned the value of their real estate, plus their common area charges. But there's also built into every shopping centre lease a provision that your assessment will go up based on the volume of business that you do. So the more business you do, regardless of the fact that you're occupying the same space, the higher your assessment and the higher your taxes.

Across the street you could have what they call a big box operation, which could be a huge Canadian Tire or a Wal-Mart or someone else who has a massive store, and there is no tying of the amount of business they do to their real estate assessment. It's just based on the square footage, the value of their building. If they triple their business, they still pay the same tax on their property.

That is an inequity that works to the detriment of tenants in shopping centres, particularly small, successful operators, because the more business they do—we're not talking business tax and we're not talking income tax; we're talking real estate tax—the higher their assessment. It seems to me that's an inequity. The point was made and I for one found it quite convincing. I think that it should be addressed. That was really the point.

**Mr Sutherland:** I would like to have a little discussion about the impact of a significant tax cut. I don't know if any of the presenters in and of themselves raised it, but in some of the discussion and questions that were asked there was some comment about what impact it would have on stimulating economic activity, taking into account two variables, the high personal debt rate and the low savings rate. I don't know whether that fits into the two paragraphs already there on page 15 or whether that would require some separate comment on that.

**Ms Campbell:** If I could just respond to that, I think that under "Summaries and Forecasts" there was some discussion of that with respect to the comments made by the Royal Bank.

**Mr Sutherland:** Okay. I saw that reference there and I was going to bring it up at that time and I thought, since that is just kind of forecasts, I would do it here. I have no problem taking it back and just elaborating what those—I think you used the term "variables" in the other. Elaborating on that a little more back in the other section would be fine by me, or adding something right here.

**Mr Carr:** The thing I was going to point out that we may want to do then as well is, as you know, the Minister of Finance did a comparison of payroll taxes. He didn't do the personal income tax rate. Our personal income tax rate is 30% higher than Alberta's, as an example, and as you know, they also don't have a provincial sales tax. We do. That's where 23% of our revenue comes in. So although this may be difficult for the researcher, we may want to do a comparison of the

personal income tax rates versus provinces.

Again, this gets back to the reason the Minister of Finance did payroll taxes. I think, very clearly, the reason he didn't talk about the personal income tax rate is that we don't come out as favourable. The reason he offered the payroll taxes as a comparison is because, as we see on page 15 there with the tax rate and the employer health tax, we were lower than the average. If he does the personal income tax rate, you'll see that we're at the very high end of the level. If you include all the taxes that we pay, and a big chunk of what we pay is the provincial sales tax, you'll see, versus Alberta, that we pay substantially more in taxes.

I don't want to get into doing that if it's too much work for Elaine, but just a comparison of the personal income tax rates may be helpful at that point as well. Having said that, getting back to the reason the Minister of Finance did it, the payroll taxes are competitive. That's why he laid it out.

Also, as the debate has been before, we didn't want to put in things that the presenters didn't put forward, but the tax people who came forward did Canada versus other jurisdictions, which was helpful, but didn't put in the context of Ontario. I don't know if the folks from the tax foundation would be prepared to do a breakdown of the Ontario tax structure, because if not, then certainly the researcher would have to do too much work and I wouldn't want her to have to include that.

Those are just a couple of quick comments on the taxation issue.

**Mr Sutherland:** Let me also say that the reason the Finance minister presented the chart on the payroll taxes and premiums is, one, to show that we are competitive, yes, but of course there is a great deal of discussion going on now about payroll taxes and their impacts on jobs and limiting new job creation. Payroll taxes and premiums get blamed for quite a bit of why companies use more overtime but don't hire new employees. So I think it's important that that information was put forward to show that it is on that competitive basis.

I haven't heard people tell me that personal income tax is the reason that there's more overtime and some companies are reluctant to hire folks.

**Mr Carr:** But getting back to our big debate this morning, the high personal income tax rate and the fact that we're one of the highest-taxed provinces in Canada, one of the highest-taxed jurisdictions in North America, is one of the reasons that we do not have the consumer spending we're having. Again, I don't want to get into the long debate on that; that isn't the purpose of this. We'll include something on that in our—

**The Chair:** Dissenting opinion.

**Mr Carr:** —dissenting opinion. Thank you, Mr Chairman. As a matter of fact, we titled our last one wrong, because I think we did put in a minority report. So thank you for correcting me on that a couple of times. But I don't want to belabour the point.

I will say this, again to give the government its due, for the first time there is the realization of a socialist government that payroll taxes kill jobs. That enlighten-

ment I think is something that took a few years, because of course the overall feeling of people of the socialist persuasion was that all you need to do is increase corporation taxes and get the rich to pay and everything will be okay. I think we're realizing now that payroll taxes do kill jobs, and that's a long way from where we came.

I give the government its due on realizing payroll taxes are job killers. Let's hope that when we get to the recommendation section, we will recommend to the Minister of Finance that he does not increase any payroll taxes, because they definitely will kill jobs.

**Ms Campbell:** I'd just like to review the comments that were made under the heading "Taxation." Mr Johnson requested an expansion of the summary of the Canadian Tax Foundation's presentation. He specifically asked for comparisons of Canada with other countries with respect to such things as personal income tax and property tax. Is the committee agreeable to that?

**Mr Sutherland:** I can't remember all the information the Canadian Tax Foundation left us in terms of the comparison, and I'm not sure if they're the ones who did the recent study which basically showed that we're in the middle of the pack in terms of taxation versus many other western countries. If the request is on personal and property, if we're doing that comparison—I mean, most people talk about overall tax rate and how we do that. If we could have some comparison that way in addition to the two specific areas requested by Mr Johnson, that would be helpful.

1620

**Ms Campbell:** Mr Kwinter requested a reworking of the paragraph following the quotation, and that will be reworked to more accurately reflect the variety of opinions that were expressed, concerning the GST in particular.

At the top of page 15 with respect to property assessment and taxes, Mr Sutherland requested that we work in some reference to education taxes and Mr Kwinter asked for an expansion on the concerns presented by the organization that represented shopping centres. Mr Carr asked for some comparisons of personal income tax rates across the country.

**The Chair:** It would appear committee members are in agreement with that. To what extent would you like that?

**Ms Campbell:** It may be difficult to get those figures, but we will see what we can do.

**Mr Carr:** I thought we could just call on the tax foundation. I'll leave it up to your discretion if it's easier, but I certainly don't want to put the legislative researcher—

**Ms Campbell:** We'll call the tax foundation and see if they have something readily available.

**Mr Carr:** If they can do it easily, great; if not, don't worry about it.

**Ms Campbell:** Okay.

Mr Sutherland also requested further discussion of the effects of tax cuts in this particular section.

**Mr Carr:** Just a quick question on that: Who would

we be trying to get that information from?

**Mr Sutherland:** I think we'd be going more on the Hansard. As you recall, there was quite a bit of questioning of the different forecasters about, would a significant tax cut generate, for lack of a better term, a spending boom, or, because of the variables of high personal debt and the low saving rate, would those dollars be used for those two purposes instead, and then that would kind of counter the impact or the projected impact on consumer spending, so just some reflection of the discussion and comments from the presenters on that.

**The Chair:** Is that enough direction? Did you have a further question, Mr Carr?

**Mr Carr:** No.

**The Chair:** Okay. That concludes the section on taxation and brings us to the middle of page 15, "Public/Private Sector Partnerships."

**Mr Sutherland:** I think the Ministry of Finance in its presentation had talked about some of the ones that are out there in different areas, whether that be viewing Jobs Ontario Training or Community Action that way, possibly OTAB. But we also had the comments of the Ontario Good Roads Association, I would suggest the Ontario Road Builders' Association's comments made references to Highway 407 as an example of how that could be—I even believe the Ontario Trucking Association made some reference to that one, I can't recall the exact references but some discussion of references by the other groups as well as the one that was already mentioned here, by COCA.

**Mr Carr:** Perhaps Elaine could also expand particularly on the financial aspects of it because, as you recall, the problem was that they talked about the partnership on the 407 not really being a financial partnership. I think there was plenty of detail about how that should work versus what's happening now. A particular emphasis on the financial aspects I think would be very helpful.

**The Chair:** Thank you. Any further comments on "Public/Private Sector Partnerships"? Seeing none, that brings us to "Job Creation and Employment." We have two paragraphs. One starts at the bottom of page 15 and continues on page 16 and another paragraph on page 16.

**Mr Sutherland:** A couple of comments: The Ministry of Finance in its presentation discussed what the government had done on its direct job creation initiatives, direct in those partnerships with private sectors, and I believe it cited some figures that would probably be appropriate to put into this section. I guess this kind of picks up on the last one because some of the same groups, certainly COCA, road builders, truckers talked about the importance of capital spending in the economy. Some reference to those comments would be probably appropriate in this section as well.

**Mr Carr:** The point I wanted to make too is just what Kimble said, to expand on it a little bit, because to my recollection there was a little bit more coming forward with regard to job creation than just what we've got here, which was a little bit about the ministry and then the OFL. I don't know if people didn't spell it out very clearly, which they may not have in their presentations,



but a lot of what was talked about relates to job creation. I suspect that topic could and should be expanded, because obviously job creation is one of the number one issues of the people of this province and I think we can expand on that section, with the comments that we heard, by a great deal.

**Mr David Johnson:** On "Job Creation and Employment," then, on the same category—and you have mentioned the OFL in here—I did make the comment about the Canadian Bankers Association earlier and its view of the link between persistent deficits and job creation. Is this a point where that could be included? Because they certainly made a strong statement with regard to job creation.

**The Chair:** I think it's in an appropriate place, Mr Johnson, yes.

**Mr David Johnson:** That's number one. Then, number two, the Council of Ontario Construction Associations also raised the issue in its brief, which will be no favourite of this government, I'm sure. Just to read a short piece from their brief:

"Another matter of great concern to contractors is the image of Ontario as a place to invest. What do potential investors think about moving to the most pro-union jurisdiction in North America where a new company can be unionized with only one employee signing a union card and where employees can't be fired no matter how bad their performance during a union sign-up campaign? Many employers are wary of such developments and exactly how much Bill 40 has retarded Ontario's recovery is something that should be studied seriously."

All of that translates into job creation. I would ask legislative research to include the Canadian Bankers Association concern, which directly refers to job creation, and I would ask that she also look at the Council of Ontario Construction Associations concerns with regard to investment and how that affects job creation.

**Mr Sutherland:** I have no problem with the comment from the bankers association because they're making a direct comment, in their view that deficits have a direct impact on the jobs. I think though that, given the nature of the discussion in this section, Mr Johnson's comment about what COCA is saying would be you've got to make several steps before you get it into the job creation section. As I indicated earlier, they made a lot of comments about capital spending and its impact on job creation, and I think those comments should be reflected in this section. I'm just not sure that the other comments he's citing fit into this section.

**Mr David Johnson:** To me it's a very direct link, but I understand the parliamentary assistant's point. There should be a category in here called "Investment." Is there such a category? I'm just looking through and I don't see it anywhere. Is there any objection to having such a category? Because in terms of an economic program, in terms of the budget, it would seem to me that investment is very crucial. Investment in businesses creates jobs, growth, assists in setting budgets, brings nothing but good things to the province of Ontario.

To address the parliamentary assistant's comments, my

suggestion would be that we include a new section under "Investment" and that this particular comment of COCA would fit very nicely into there, and then we would have all of their comments, those that are supportive, I guess, and those that are not as supportive. But at any rate, we'd have all of their comments, and I think that's what we want. They have some very direct things to say about the investment climate. I believe that's very important to the province of Ontario. Is there any objection to that?

1630

**The Chair:** If the committee members agree to having a section entitled "Investment," that's certainly—

**Mr David Johnson:** There may indeed be other comments too. There may be other comments that the government would like to insert under the category of "Investment." If so, that would be fine.

**Mr Sutherland:** If we are going to have that, then I guess I would certainly like us to include the data that was provided to us by Mr Christie, associate secretary of the treasury board, regarding investment levels in the auto sector since the 1980s. I don't think we need all the 1980s, but certainly the information that indicates the type of significant investment in that chart seems significant because we see that 1994 was a record year, according to this graph that was presented to us, in terms of the overall amounts and that 1993, while not a record year, was a very strong year as well.

**Mr David Johnson:** Whatever material fits within the criteria that we've set that can be included in the report, I would say, fine, absolutely. If Mr Christie's information has come in after the fact, I don't know if it's eligible to be included or not. I gather it relates to transportation equipment. Is that the one you're referring to?

**Mr Sutherland:** It relates to questions that the ministry staff were asked when they were here, when the minister came in. So he was responding to that.

**Mr David Johnson:** It conveys information with regard to one sector of the economy, I guess.

**Mr Sutherland:** Yes.

**Mr David Johnson:** If it's eligible, given that it's come in afterwards. I don't know. I presume the legislative research would know that. No, they don't.

**The Chair:** I think the point is that the questions were asked by all committee members of Finance officials and they have responded very quickly with respect to some of those questions and somewhat longer in time in others. I think these are just some answers coming back, if I'm not mistaken.

**Mr David Johnson:** Sure. If that's within the regular scope, then I'm not trying to be difficult. That could be included along with COCA's.

**The Chair:** I think we've given direction with respect to that, but Ms Campbell undoubtedly has some questions.

**Ms Campbell:** I just want to recap the instructions that were given under "Job Creation and Employment." It's my understanding that there's a consensus that this particular section should be expanded to incorporate more of the comments that were made with respect to "Job

Creation and Employment,” more specific comments. Mr Sutherland mentioned capital spending and the figures given by the minister. Mr Johnson asked for inclusion of reference to the Canadian Bankers Association’s concerns about employment. He also discussed the Council of Ontario Construction Associations’ brief and the concerns that it raised about Ontario as a place to invest. Is it my understanding now that that should go under the new category of “Investment,” and it’s agreed that there will be a new category called “Investment”? All right.

One further question: When we started discussion on the paper this morning, under the heading “Economic Summaries and Forecasts,” the past year, Mr Phillips made reference to employment figures, comparing 1989 with 1994. It was decided that we would perhaps discuss that particular request under the section heading “Economic and Fiscal Policies.” Is the committee interested in including those figures in the section of the paper under “Job Creation and Employment”?

**Mr Phillips:** I am.

**Mr Sutherland:** Could I just have some clarification again as to what the type of figures are that are being requested?

**Mr Phillips:** I think the point this morning was that 1994 was not a bad year for job growth, but the point we were making this morning was that Ontario still, in 1994, had 84,000 fewer jobs than it had five years before. The rest of Canada has gained 240,000 jobs over that same period of time. So the point was really that while we’ve seen 1993 job growth and 1994 job growth, we’ve still got a long way to go before we get back to where we were in 1989 and then begin to pick up some of the people who are obviously unemployed and some not even in the labour force.

**Mr Sutherland:** I have no problem putting that in provided we have some larger context in that discussion. The reality of one of those reasons of course is that in this recession, far more than the other ones, we had more permanent job loss due to adjustments to free trade and general restructuring. It hit the manufacturing sector much harder than it did other sectors, which means Ontario suffered far more than many of the other provinces, which also gives more context as to why those numbers are the way they are. I’m not sure if we had some of that context presented to us, but if there’s some way of incorporating that too, then I don’t have a problem having that put in.

**Mr Wiseman:** I just thought if we wanted to have some context, one might go back to the 1989-90 budget and find out that in that year there were only 40,000 jobs created. There’s another little fact to throw out in terms of context.

**The Chair:** Any further comments with respect to the question raised by Ms Campbell and more specifically with regard to the information Mr Phillips would like included?

**Mr Carr:** Mr Sutherland is saying he wants to talk about the free trade agreement creating the problems. On page 3 of our report, which we’ve already gone through and approved, we say, and I quote, “Credit for the posi-

tive news was given to exports and investments,” of which a high proportion has been to the US. I use the auto sector which came in as an example. We heard very clearly from them that we are exporting more into the US. So you can’t have it both ways. You can’t, on page 3, as the government, try to take credit for the increase and say, “Credit for the positive news was given to exports and investments,” and then at the same time blame it on the free trade agreement when easily over 80% of our manufactured goods go to the US.

Either free trade has, as we say on page 3, helped increase—“Credit for positive news was given to exports and investments”—or it hasn’t. The part I would support is what was put forward by Mr Phillips, but I certainly couldn’t support what Kimble is saying, because quite frankly you can’t at one time, in the beginning of the report, take credit for exports being up and at the same time, when it serves you politically, try to slam the free trade agreement.

**The Chair:** The hands are up.

**Mrs Haslam:** You have such a way with you, Gary.

**Mr Sutherland:** Mr Carr, I wish I could go through this world seeing everything as black and white as you and some of your colleagues seem to. There was adjustment to free trade. We all know that. Adjustments, whether they were directly related to free trade or just making an overall adjustment to compete in the overall larger market, had a tremendous impact. You also have to remember that, as you said, the largest amount of those exports right now are auto-sector-related. Of course we didn’t have true free trade in the auto sector. What we had is what I’d call managed trade in terms of ensuring that there is Canadian content and jobs here in Canada and jobs in the States regarding the auto industry. That managed trade system was already in place before the free trade agreement, so you can’t say at one time and then the other. That’s not the case, okay?

**1640**

Free trade did have an impact on Ontario in terms of adjustments, plus other restructuring, particularly in industries that aren’t auto-related. I think of the food processing industry. We know we lost quite a few jobs in that industry shortly after the free trade agreement came in.

So very clearly there were job losses, there needed to be adjustment, but we also have to remember that the managed trade in the auto sector has been in place for a long time in terms of autos and auto parts going back and forth. You can’t say all of this increase in exports is due to the free trade agreement. Much of it, because it’s auto-related, would have been occurring anyway as a result of the auto pact.

**Mr Wiseman:** I think we have to go back again and take a look at what was happening in 1989, 1990, 1991. We have to remember that the interest rates were high, that the Canadian dollar traded at a max of 89 cents, and when I was talking to business people in my riding, when I went around and talked to them, they were telling me that the high dollar was killing them, because it had gone up so fast from October 1987 until 1990, a year and a



half, two years max. It had gone up from about 72 cents in October 1987 to 89 cents in 1990. That is a huge increase when you consider that some of the businesses out there that trade into the United States had made long-term contracts, that these contracts were for delivery and for payment on delivery, and that they were calculated in 1987 dollars.

Now, when this goes up, and their margin is maybe—for example, in the tool and die industry I was told that the margin of profit was maybe a tenth of a cent per item, and when you consider that the increase was about 25% to 30% in the value of the Canadian dollar, you can see how quickly that would wipe out anybody's profit margins in a business.

We heard early on in this committee, in the 1991-92 pre-budget hearings, from the mining manufacturers, who clearly indicated that when the dollar goes above 80 cents, their profits start to drop, and they had a number. It was in the hundreds of millions of dollars in terms of the value of their commodities dropping, and that takes a period of time to recover in terms of what happens when the dollar goes so high that these businesses that had created contracts and created long-term deliveries were losing huge amounts of money and being forced to lay people off.

So for the context of this discussion, I think we need to recognize that the damage that was done with the high dollar and the high interest rates, combined with the free trade deal and also the lack of recovery programs and programs that were promised by the federal Tories when they did the free trade deal, combined to created this huge drop in employment in the province of Ontario. It's only now that these companies are starting to become profitable. The dollar has stabilized out around 70 to 72 cents for about the last six to eight months and they can start to be profitable again. But if the dollar starts to go up again and there isn't any kind of stability, these companies are going again to be in some serious difficulty in terms of trade and in terms of trying to market their products.

One other point about some of the reasons the automotive sector is doing as well as it is is that the United States has a Clean Air Act, and the Clean Air Act is a fleet clean air act. In other words, they are penalized on the basis of the fleet emissions of their automobiles, so they have to make their big-engine cars somewhere other than the United States. It's really fortuitous for us that we have the infrastructure here already and that we have the workforce and we have the skills and we have the training programs and we have the capacity and the ability to produce those cars in Canada, because they have to be produced somewhere other than the United States. I think we need to take into account that it's a far more complex world out there than the simple world that the Tories continue to paint in trying to get things added into this budget document.

**Mr Carr:** Socialists talking about a simple solution. I think back to the Agenda for People—

**Mr Wiseman:** Who said it was simple?

**Mr Carr:** —and calling ours simple solutions, with your Agenda for People that you ran and were elected on.

All I know is that in Oakville, the competition for the Windstar was between Canada and the United States. We won out because we produce the car faster, better, cheaper than the Americans. Some 90% of them go to the US, not because of any agreement; they go because that's where 90% of the sales are.

So if you want to get into the simple answers—and Mr Wiseman gets into all the reasons—the fact of the matter is the Ford Motor Co had a decision to make: Where can they build a car the fastest, the best and the cheapest? It happens to be in Oakville. We can compete with Americans on car production any day and we are beating them in one of the largest industries in North America. That's why I'm saying we should not be fearful of the free trade agreement, because we have nothing to fear with the Americans, because quite frankly we can outproduce them in many of the sectors. That's the comment I wanted to make with regard to the free trade agreement and Mr Kimble's comments about what happened.

#### *Interjections.*

**Mr Carr:** Oh, sorry, somebody else kept saying it. Mr Sutherland's—Kimble's—comments on the auto pact and so on. The fact of the matter is, in this day and age, the number of sales that go to the US is dictated by one thing and one thing only, and that's sales. There are no quotas. It doesn't have to be 90%. It just happens to be, with their economy being larger, that's where our products go.

In Oakville, we would not have as many people employed had we not been able to have access to that market and send 90% of the things that come off the end of our line in Oakville to the US. And quite frankly, with all the other discussions that are going on about why it happened and everybody trying to take credit for it, the fact of the matter is that with regard to the free trade agreement we have nothing to fear with the Americans because the auto sector is a perfect example of how we can beat them at their own game.

**Mr Wiseman:** I don't want to get back into this. I'd love to get back into this, but let's move along.

**The Chair:** I appreciate that, Mr Wiseman. Ms Campbell wants to ask the committee some questions with respect to their opinions.

**Ms Campbell:** I just have a question concerning the inclusion of figures comparing jobs and employment in 1989 and 1994. There was reference made by Mr Sutherland to the use of context. What would the committee like used in terms of context?

**Mr Sutherland:** I guess the few basic points that I tried to make were that because the recession hit manufacturing harder than any other area and Ontario has the largest portion of manufacturing in the entire country, therefore the impact in Ontario in this recession was greater than in the other provinces. So when you look at the figures that Mr Phillips is putting forward about how we compare with the jobs created since 1989 versus the other provinces, I guess that's the context that needs to be taken into account, that the recession didn't hit all the other provinces in the same way and therefore their opportunity to rebound quicker was there.

**The Chair:** That's helpful. Is that enough?

**Ms Campbell:** I take it that the committee is agreeable to that as being used as context.

**Mr Phillips:** I don't have a problem with it. I think there is probably a whole series of reasons for it; that one in the manufacturing sector I think, and the construction sector there is a series of reasons for it.

**Mr Sutherland:** Sure, construction's probably—the overbuilding.

**Mr Phillips:** Metro Toronto has lost a lot. We could go on. I was just anxious to indicate in the document for all of us that employment continues to be a very significant problem that hasn't yet gone away.

**Ms Campbell:** One final point: The employment figures that we'll be using are for Ontario and the rest of Canada?

**Mr Phillips:** Yes.

**The Chair:** We are at this point halfway through the draft report. We have two sections left—"Non-Tax Revenues" and "Regulation and Red Tape"—before we get to "Sectoral Issues." I would like to ask the committee members at this time if, before the day ends, they would like to complete those two topics or, given that we are halfway through the document, if you would like to conclude the day's work at this time. I'm just putting this

question out because the Chair would like to know what we should do.

**Mr Sutherland:** Maybe we should try and finish these last two sections.

**The Chair:** If there's no disagreement with that, then we'll proceed with "Non-Tax Revenues." Comments, concerns with the one paragraph under "Non-Tax Revenues."

**Mr Kwinter:** I agree with it.

**The Chair:** Everyone's in agreement with that. That brings us to "Regulation and Red Tape," of which there are two paragraphs.

I see the committee members all seem to be in agreement with what is here. I must admit I'm quite surprised. I thought maybe these two topics would bring heated debate and great lengths of discussion.

**Mr Sutherland:** Maybe we should go through the rest of it, the way we're going.

**The Chair:** I would suggest that since we have concluded that major section and the next section is "Sectoral Issues," of which there are a number and they are quite large in their individual sectors, the Chair will take it upon himself to adjourn this committee and we'll resume this committee tomorrow morning at 10 am sharp.

*The committee adjourned at 1653.*

## ERRATUM

No.	Page	Column	Lines	Should read:
F-51	F-1542	2	55	\$10.2 billion to \$6.3 billion in 1996-97 and \$4.2 billion





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## STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

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Prince Edward-Lennox-Hastings-Sud ND)

\***Vice-Chair / Vice-Président:** Wiseman, Jim (Durham West/-Ouest ND)

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\*Caplan, Elinor (Oriole L)

\*Carr, Gary (Oakville South/-Sud PC)

\*Haslam, Karen (Perth ND)

\*Jamison, Norm (Norfolk ND)

\*Johnson, David (Don Mills PC)

\*Kwinter, Monte (Wilson Heights L)

\*Lessard, Wayne (Windsor-Walkerville ND)

\*Phillips, Gerry (Scarborough-Agincourt L)

\*Sutherland, Kimble (Oxford ND)

*\*In attendance / présents*

### **Substitutions present/ Membres remplaçants présents:**

O'Connor, Larry (Durham-York ND) for Mr Lessard

**Clerk / Greffière:** Mellor, Lynn

**Staff / Personnel:** Campbell, Elaine, research officer, Legislative Research Service





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ISSN 1180-4386

**Legislative Assembly  
of Ontario**

Third Intercession, 35th Parliament

**Assemblée législative  
de l'Ontario**

Troisième intercession, 35<sup>e</sup> législature

**Official Report  
of Debates  
(Hansard)**

**Wednesday 1 March 1995**

**Journal  
des débats  
(Hansard)**

**Mercredi 1 mars 1995**

**Standing committee on  
finance and economic affairs**

**Comité permanent des finances  
et des affaires économiques**

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## LEGISLATIVE ASSEMBLY OF ONTARIO

## ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON  
FINANCE AND ECONOMIC AFFAIRSCOMITÉ PERMANENT DES FINANCES  
ET DES AFFAIRES ÉCONOMIQUES

Wednesday 1 March 1995

Mercredi 1 mars 1995

*The committee met at 1005 in room 151.*

## PRE-BUDGET CONSULTATIONS

**The Chair (Mr Paul R. Johnson):** We continue today with our draft proposal that we have before us. You will remember yesterday that we ended on page 17, "Sectoral Issues." I would like to remind the committee members that it's extremely important that we get through this draft proposal today because today is the last day that we're legislated to sit and deal with it. Should we not complete it today, we will have—

**Mr Kimble Sutherland (Oxford):** A problem.

**The Chair:** That's right. So let's get things rolling. We'll start with "Sectoral Issues," the middle of page 17. We have one paragraph and then we get into the actual sectors. Are there any comments with respect to the first paragraph?

**Mr Jim Wiseman (Durham West):** What page are we on?

**The Chair:** The middle of page 17, "Sectoral Issues." I think the paragraph is very self-explanatory. The first sector is agriculture, and I know that all the committee members have had an opportunity to review this draft proposal prior to coming to the meeting. However, at this point, if anyone would like to raise concerns with respect to this, it would be appreciated.

**Mr Gary Carr (Oakville South):** A quick question to the researcher: I had gone through and re-read the Ontario Federation of Agriculture report. I was wondering, on the length, because their report was fairly lengthy and ours ended up being a little smaller here, if we incorporated all the issues effectively in their submission. I know they did the oral submission. I just got another copy of the written presentation they sent to all the members, and because they're such a vital part of this province, I wanted to make sure we incorporated everything they put in their written presentation.

**Ms Elaine Campbell:** Due to time constraints it would be impossible to include absolutely every concern that each sector had. This is a representation of their concerns. There's more in the Summary of Recommendations.

**Mr Carr:** Okay, thank you.

**Mr David Johnson (Don Mills):** I just note that the Ontario Federation of Agriculture also expressed concerns with regard to the Agricultural Labour Relations Act and I don't think that's—

**Mr Wiseman:** They had no problem with the Agricultural Labour Relations Act.

**Mr David Johnson:** To quote them from their brief:

"The OFA is concerned that this new legislation may have unforeseen consequences which will hinder the competitiveness of the Ontario agrifood industry. In addition to the ongoing development of the ALRA, issues such as workers' compensation and minimum wage adjustments have the potential to greatly influence the economic health of the Ontario farming community."

I don't know where Mr Wiseman is necessarily getting his comments but what I've just read is a quotation from their brief.

**Mr Wiseman:** It was a comment when asked a question.

**Mr David Johnson:** This is precisely from their brief. I would suggest that those concerns be included as well.

**The Chair:** I just remind you, Mr Johnson, that certainly there was the document they gave us but there was also a verbal-visual representation by the OFA and they made some comments with respect to that as well. I think Mr Wiseman or Mr Jamison want to comment.

**Mr Norm Jamison (Norfolk):** I think it's more appropriate, since the question was asked directly in committee, that the remarks given by the economist with the OFA—I forget the fellow's name. If you give me a minute, I can look up his comments here. I have them in front of me. His comments were not negative towards Bill 91. As a matter of fact, if we look at his comments that were given here in front of the committee on behalf of the OFA, they were rather neutral on that.

**Mr David Johnson:** That may be all that it is. When was it given?

**Mr Jamison:** That was a presentation given to this committee.

**Mr David Johnson:** Any one individual may choose words appropriately, but the fact remains that the official brief and the official wording of the brief to this committee has expressed the precise words that I have read to you:

"The ALRA considerably extends the bargaining power of agricultural workers. The OFA is concerned that this new legislation may have unforeseen consequences which will hinder the competitiveness of the Ontario agrifood industry."

I don't know how much more specific or clear you can be than that.

**The Chair:** Thank you, Mr Johnson. I'm just trying to look out for the researcher here and I want to remind you that, yes, we had a lot of written submissions and

they all made a lot of comments, written comments, and we also had presentations before the committee. I think that, as a researcher assimilated all the information, a very strong comment made before this committee was something the researcher would have noted. In defence of the researcher, she has a huge pile of information that she's tried to edit and compile into a very precise, concise document.

I respect your raising the issue, Mr Johnson—

**Mr David Johnson:** I'm sure the researcher would be more than happy to include this comment with the direction of this committee, so if you chose to be helpful to the researcher, Mr Chair, you'd say: "Sure. Go ahead. Put that in there."

**The Chair:** No, I wouldn't, Mr Johnson. I'd ask the committee whether there was a consensus with respect to that. Mr Carr.

**Mr Carr:** I was just going to point out that we all know Elaine does a terrific job, but with all due respect, that's what this committee is supposed to do, review that and add to it. I understand that, in the interests of time, she had to pare it all down. Otherwise, we could just have made copies of the Hansard. But I feel strongly, like Mr Johnson does, that what was put in that presentation from the OFA should be in the report.

I understand that it's critical of the government, which may not want it in there for that reason, but certainly their presentation was very clear, and I won't re-read the words Mr Johnson put forward. It may be critical of the government, but I think it should be in there because I think it was part of their presentation and a very important part of their presentation.

**Mr Jamison:** I just want to read from the presentation of that date. Mr Bradley went on to say:

"The committee's view and advice to the various farm organizations which support it is that collective bargaining and the right to organize is an acceptable arrangement in Ontario, provided in the agricultural instance those rights are exercised in a framework which respects the unique qualities of agriculture."

That's what they had to say here in front of the committee on Bill 91. I believe that's not an overwhelming acceptance, but I believe that, as I said, they've taken the advice of their members on the committee that this is an acceptable way to proceed in that case and they've stated that right here in front of the committee.

I believe that's important. I believe that's precise, what they have said. I believe that's something that should be clearly stated in the report as far as the OFA and labour relations is concerned. Those are not my words. Those are the words of the OFA.

**Mrs Karen Haslam (Perth):** I tend to be a process person and I like to look at the process here. We've asked a researcher to evaluate in a non-partisan way and to accumulate and to put into a couple of paragraphs a half-hour presentation and questions, and in some cases one paragraph of a half-hour presentation and questions. If we're going to go back through Hansard and pick out every little picayune thing that was said, then I'm going to go back to my office and I'm going to get my Hansard

and I'm going to pick out all of these things and I'm going to find someone who says The Common Sense Revolution wasn't thought out well—the gentleman from COMER. I'm going dig out all these little picayune things that you want to put in this little report.

This is a process that has been set out. I think the researcher has done an admirable job in putting the sectoral pieces together. If this is going to boil down into a pre-election you said, I said, we said, they said, it's a waste of the committee's time. I would rather we looked at this report the way we're supposed to be looking at this report and get on with it.

**The Chair:** Thank you, Ms Haslam. Mr Wiseman.

**Mr Wiseman:** Oh, no. I'm just sitting here today.

**The Chair:** I'm grateful for that, Mr Wiseman.

**Mr Wiseman:** My chain hasn't been rattled yet, but the Tories are working on it.

**The Chair:** Thank you. That's appreciated. Mr Johnson.

**Mr David Johnson:** Well, not attempting to rattle anybody's chain, just bring information, I'm sorry that Ms Haslam has taken the view that she has, because far from being picayune—

*Interjections.*

**Mr David Johnson:** —I think just about anybody in the agricultural field would indicate—over the din here, Mr Chairman—that the Agricultural Labour Relations Act was perhaps the most significant event in the agriculture industry over the past year—

**Mr Wiseman:** That happened yesterday when they had all their funding cut.

**Mr David Johnson:** Mr Wiseman may be correct in terms of the federal situation earlier this week, but we're not primarily dealing with that. That wasn't part of the input into the process.

What we're dealing with are the presentations and what has taken place over the last year. How can anybody dismiss the Agricultural Labour Relations Act as a picayune event over the past year? It is very significant in terms of the farm industry, and I'm sure those in the agricultural industry would indicate it has a dramatic effect—some would say positive, some would say negative—in terms of the health and the wellbeing and the economic competitiveness of the whole agriculture industry.

Mr Jamison, I think, had a more positive comment, that he found a quote from somebody pertaining to the industry in Hansard, and I would say fine. Since this is an important component, put both of them in. I think the quote that Mr Jamison has found is damning with faint praise, frankly. The word "acceptance," as he noted, was very prominent. Some components of the agriculture industry have "accepted" the Agricultural Labour Relations Act. Obviously, they're not overjoyed by it. They chose the words very carefully.

But fine; this is a significant event. Put in the comment that Mr Jamison has indicated. Put in the comment that is right in the brief that I have alluded to. But the major thing is that it's hard to put your finger on something



that's more important to the industry, and for us to ignore that act in our report to the minister—I would say we're not fulfilling our duties.

**Mr Sutherland:** I'm sure all the good farmers in Don Mills appreciate knowing that the Agricultural Labour Relations Act is the most important issue to impact them in the past year.

**Mr Carr:** Somebody's got to do it.

**Mr David Johnson:** There used to be a minister from Don Mills at one point too.

**Mr Sutherland:** I know. People are still trying to figure that one out.

But the point is, there's no doubt that the changes in terms of the globalization of what occurred at GATT and the change to tariffication from what was already in place is by far the most significant event in the past year to impact farmers and will be the most significant thing to impact farmers for the next five to 10 years as they make adjustments to that.

I know the Tories continue to want to make this Agricultural Labour Relations Act a bigger issue than it really is. If they did some research and looked at what occurred in eight of the nine other provinces that allow agricultural workers to unionize, they would know that the rate of unionization is relatively low, between 3% and 5% of the agricultural workers.

But it's quite interesting. I was at a forum and the local Tory candidate was there and he had a copy of that rural task force report that Mike Harris had put out. The section on the Agricultural Labour Relations Act is very interesting because they talk about this being a very negative thing, and then right down below it, they don't clarify this, but they talk about the Heinz situation in Leamington. Really, what they're trying to imply is that that's an example of the problem of the Agricultural Labour Relations Act.

Unfortunately, what the Tories don't tell people is that food processing has been unionized for many years. In fact, probably food processing was allowed to unionize under the Tory government, and the situation in Leamington has nothing to do with the passage of the Agricultural Labour Relations Act. But the Tories continue to want to try to—

**Mrs Haslam:** Stir.

**Mr Sutherland:** Well, yes, that's probably the most appropriate word.

**Mrs Haslam:** It's not the most appropriate, but I'm a lady.

**Mr Sutherland:** —stir things up in rural Ontario by creating these impressions that somehow the Agricultural Labour Relations Act has to deal with the issue of food processing, when it has nothing to do with it.

I think in terms of what we've heard, Mr Johnson has said there's a comment that supports his view. Mr Jamison has clearly shown from the Hansard that there were other comments that indicated they weren't that concerned about the piece of legislation. It would seem to me that the two comments kind of neutralize each other and therefore it isn't quite as important as Mr

Johnson would like to imply. The comments about what's happening globally, in terms of the changes to GATT and moving to a tariffication system are the most important things impacting agriculture these days.

1020

**Mr Carr:** That being the case, and I think Mr Johnson was trying to be practical in putting in Mr Jamison's comments as well, let's put in a little something on the situation with GATT, but for heaven's sake let's not turn the sectoral section into something where we take their presentation, which was well thought out—I think everyone will agree on that—well done, and then try to condense it into a couple of lines. If you feel strongly, let's include that as well and expand on it then. If that's as critical as you say, then we can expand on it.

I guess what I'm saying is that as I look at it—and in all fairness to the researcher, she has to go through all this and condense it—agriculture is a big, big factor in this province and the report will not do it justice unless we talk about some of these issues. Quite frankly, if we're not prepared to discuss them and put them in and take them out, in the give and take like Mr Johnson said with Mr Jamison's request, then why are we here? If you want to talk about a waste of time, let's just go with what the researcher did, close up shop and we'll all write our dissenting reports and go from there.

I think what Mr Johnson was offering was something that was fairly practical. He wanted one thing in and said let's put Mr Jamison's comments in too to try to get a fair balance. I think that's what we should do.

**Mr Jamison:** Those comments were not mine; those were read right from Hansard. Those were Mr Bradley's comments, the economist with the OFA.

**The Chair:** The Chair at this point in time is certainly in the hands of the committee with respect to how they would like changes made to this sector. I've heard two direct opinions with respect to how changes should be made, and what the Chair needs now is a consensus with respect to that. Mr Johnson has asked for an inclusion and Mr Jamison has asked for an inclusion; indeed, now they are included in Hansard for this committee meeting. However, will they be included in the report is the question the Chair asks the committee at this time.

**Mr Sutherland:** No.

**The Chair:** I've heard no and I see yes.

**Mr Wiseman:** It's not one of the recommendations.

**The Chair:** If there's a motion that any of the committee members would like to place at this time, it would be received graciously by the Chair.

**Mr David Johnson:** I certainly would move that the comments as outlined by myself and Mr Jamison be included by legislative research in the report.

**The Chair:** I think the motion is clear. Any comments with respect to that motion?

**Mr Wiseman:** I'm just reviewing the list of recommendations that the OFA put before us. There are some 19 of them. The Bill 91 OLRA is not one of them; it's not a recommendation that they wanted to see the government of Ontario act on.

They had three recommendations on NISA.

They had a recommendation for "84% coverage under market revenue insurance," a recommendation to "increase the funding allocated to agrifood research," and a recommendation to "take all measures possible to ensure that the Ontario Agricultural Training Institute funding is included as part of the federal government's agrifood strategy"—well, we know where that one's going to go in terms of what happened on Monday.

They had a recommendation to "adopt a strategy of management skills training for Ontario farmers with OATI's role as a cost-effective coordinator of farm-gate training programs guaranteed by provincial funding."

They had a recommendation to "have Ontario Training Adjustment Board officials work with the Ontario Ministry of Agriculture, Food and Rural Affairs to simplify training investment program guidelines and/or applications procedures for rural-based, small business owners."

They had a recommendation to "recognize OATI's eligibility for funding under OTAB's training" adjustment "trust fund as the agricultural industry's coordinating agency."

They had a recommendation to "make no further cuts to OMAFRA's agricultural and rural services." Well, we know that if the Tories ever got elected it's 20% gone there, but that's a little editorializing here.

They had recommendations:

"—Establish a combination grant-loan program that will assist farmers in making farm improvements that will benefit the environment.

"—Increase the funding to the Niagara tender fruit lands program to provide easements for all eligible properties.

"—Offer conservation easements throughout the province for the protection of agricultural land and privately held lands deemed to be of benefit to society in an undeveloped state.

"—Immediately renew the order in council providing for the farm property tax rebate program for a further five-year term at a rebate level equal to or greater than \$159 million.

"—Reinstate tax relief to owners for private forests.

"—Integrate the provincial retail sales tax with a national sales tax modelled on the same principles as the federal goods and services tax.

"—Continue to work with the federal government to keep tobacco taxation in line with neighbouring jurisdictions so as to eliminate the profits associated with black markets and thus maintain a viable, well-regulated tobacco industry.

"—Undertake to equalize the rates that farmers pay for electricity across the province, regardless of whether they are Ontario Hydro customers or municipal electric commission customers, and undertake to work to bring about Ontario electrical rates that are more competitive with those offered farmers in neighbouring jurisdictions."

Of the top 19 things that the Ontario Federation of Agriculture thinks are important, this is not one of them.

**The Chair:** Further discussion on this motion?

**Mr Carr:** I just wanted to quickly correct Mr Wiseman. In our plan, there isn't a 20% cut to agriculture. The cuts are listed very clearly. What they can do is call 1-800-903-MIKE, get a copy of it and read for themselves. Agriculture is not touched. What we do is we talk about where we will spend, where we will not spend, and you know what? We do it before the election. So I would encourage people to call. Agriculture is not going to be cut.

**The Chair:** Any further discussion on this motion? Seeing none, Mr Johnson, Don Mills, moved that comments outlined by Mr Johnson, Don Mills, and Mr Jamison be included in the report. All those in favour?

**Mr Carr:** Can we record this?

**The Chair:** Sure. All those in favour?

**Mrs Elinor Caplan (Oriole):** Could I ask for clarification, Mr Chair, of exactly what it is that you're suggesting? My question is, are the quotes that are being requested to be included presently in Hansard?

**The Chair:** Throughout the duration of this committee they would be included somewhere, Ms Caplan. Yes, they would.

**Mrs Caplan:** Okay, in Hansard, as far as the presentations that were made before the committee. My position is that I will support inclusion in the report of any quote or statement that was made by a representation or in a presentation that was put before the committee. What I will not support is anybody attempting to put something into the report that was not made in a presentation either in writing or in person before the committee. So I'd like you to clarify for me.

**The Chair:** Both pieces of information as outlined by Mr Johnson and Mr Jamison are indeed in Hansard.

**Mrs Caplan:** Then I will support inclusion of both.

**The Chair:** Once again I would like to ask: All those in favour of the motion?

**Ayes**

Caplan, Carr, Kwinter, Johnson (Don Mills).

**The Chair:** All those opposed?

**Nays**

Abel, Haslam, Jamison, Lessard, Sutherland, Wiseman.

**The Chair:** The motion is lost. Are there any further comments with respect to agriculture?

*Interjections.*

**The Chair:** Order, please. Are there any further comments with respect to the sectoral issue "agriculture"? Seeing none, it would appear that we will have included in our report the paragraph as it stands.

The next sector is "Beverage Alcohol Products and Food Services." Any comments on this sector?

**Mr Monte Kwinter (Wilson Heights):** I know the researcher had a problem in, how do you condense all of the material that came forward and not deal with every single detail? But in the presentation by the Association of Canadian Distillers, and we go down to the seventh line, they talk about, "Producers and consumers of beverage alcohol products are taxed differently depending



on what they produce or consume."

I think it would be useful to just expand that a little bit as to what the problem is, and the problem is this. You have the three major classifications of beverage alcohol: wine, beer and spirits. Regardless of their alcoholic content—as a matter of fact, if they all have exactly the same alcoholic content—they're taxed at different levels, spirits being taxed the highest. Their concern was that there seems to be a perception in the general public that somehow or other spirits are more intoxicating or are more dangerous than beer and wine. The point they were making is that alcohol is alcohol is alcohol depending on what quantity you use, but if the alcohol content is the same in all three beverages, they should be taxed the same. I think it would be useful to just have that mentioned so you know what their concern is.

1030

**The Chair:** It would appear the committee is in agreement with that.

**Mr David Johnson:** I have no problem with that. I'd just make a comment, because I know you can't get everything into a report, but I found it interesting that although we realize that a great proportion of the value of a bottle of spirits is in taxes, I found it amazing that when the Association of Canadian Distillers made its presentation, I believe it was 87%—

**Mr Wiseman:** Eighty-three per cent.

**Mr David Johnson:** —83% of the value of a bottle goes in the form of either provincial taxes or federal taxes or environment taxes, and on questioning, it became apparent that they hadn't included property taxes in that 83%. So if you could sort out across the province of Ontario what was an average property tax, it would probably be another 3% or 4% on top of that again, I would guess, bringing the total then up to about 87% or thereabouts of the cost of a bottle going in the form of one tax or another. That's truly an amazing statistic and it's one that is of a great deal of concern to that particular industry. I don't know if there's a place in the report here for it but I just wanted to comment on it because I was rather shocked to hear that number.

**The Chair:** With respect to clarification, that would be municipal taxes on business establishments?

**Mr David Johnson:** In terms of wherever they produce.

**The Chair:** Wherever their business establishments are.

**Mr David Johnson:** Yes, wherever their business establishments are. They pay property tax in one jurisdiction or another, whether it's in Metro Toronto or some other region, Durham, Peel, York or Ottawa, you name it, but they would be paying property tax wherever they're located.

**The Chair:** All businesses do, of course.

**Mr David Johnson:** That's right, all businesses do. I'm not saying they don't.

**The Chair:** It's not unique to them.

**Mr David Johnson:** It's not unique to them, but I think what is unique to them is that if you take any other

product manufactured in the province of Ontario and add up all of the provincial, federal and municipal taxes, environment taxes etc, it's very doubtful that any other product produced in Ontario, when you add all those taxes in, including property tax, would have 87% of its value in the form of taxes; cars, television sets, you name it.

**The Chair:** The Chair certainly doesn't want to be out of line and I hear what you're saying. We'll listen to other committee members, but I would just suggest that every business that carries on business in the province of Ontario is affected by that same tax.

**Mr David Johnson:** I just raise that as a point that was astonishing to me. I realize that the mood here is to progress on, and we need to get through this report today, so I'm not putting that forward as a motion to include that, but I simply raise it as a point that was astonishing to me.

**The Chair:** It will be included in Hansard most certainly.

**Mr David Johnson:** This is the highest-taxed product produced in the province of Ontario bar none is my suspicion.

**The Chair:** The next sector is "Construction" on page 19. There are two paragraphs. Any comments on either of these paragraphs with respect to construction?

**Mr David Johnson:** Yesterday, we were talking about the Ontario Home Builders' Association. It was a question that came from the government side about the Ontario Home Builders' projections for the industry over the next few years. There were some projections as high as 60,000, 70,000 homes being built in the province of Ontario, but there was some discussion that the Ontario Home Builders' projections were actually lower, maybe 45,000, 50,000. I just wondered if those data were available, because there seems to be some interest in that. There's a lot of employment involved. If those numbers are available, perhaps legislative research could include them.

**The Chair:** I'm sure the numbers are, and it would appear the committee members are in agreement.

**Ms Campbell:** These are housing start figures which the OHBA provided to the committee?

**Mr David Johnson:** Yes, that's exactly right.

**Mr Wiseman:** I think it's 45,000 absolute max, which calls into question some figures on page 9 of the report.

**The Chair:** It appears that everyone's in agreement with that. We'll move on to culture. We have one paragraph at the bottom of page 19.

**Mrs Haslam:** In other sectors there was some indication in your paragraphs about the business that they are involved in and the elements in the economy that are affected. In this particular instance, there wasn't much, yet the multiplier effect for this particular sector is very, very high, and for the \$1.3 million it receives through the film industry the spinoffs were amazing, and none of that is indicated in this particular one. I'd like to see something similar to other sectors whereby you indicate the business part of what they were trying to talk about. This is a rather small paragraph compared to every other

sector, but the multiplier is much larger in many cases.

**Mr Wiseman:** I'm just curious that the OAC asked for a straight-line budget of \$43,099,100. What are they currently getting?

**Mrs Caplan:** Forty-three—

**Mrs Haslam:** That's it.

**Mr Wiseman:** They're getting this, or—

**Mrs Caplan:** That's what they're getting.

**Mr Wiseman:** So they want a line-item budget.

**Mrs Caplan:** They asked for a flat line. Don't cut, was their—

**Mrs Haslam:** They just don't want it to be cut.

**Mr Sutherland:** A straight line, yes.

**Mr Wiseman:** Okay, thank you.

**Mrs Caplan:** I would just expand a little bit on the point that Ms Haslam made. It was the film festival group that particularly made the point about the economic multiplier of their grant, which was about \$1.3 million, and I think their impact was about \$30 million in economic activity. I think the arts council also gave us indications of the numbers of people who not only were supported but of the economic activity they generated within the economy, and I think that might be an appropriate addition to the paragraph.

**The Chair:** It appears that everyone on the committee agrees with that. Any further questions on culture? Seeing none, on page 20 we come to the environmental sector, two paragraphs. Is there any discussion on those paragraphs? Seeing none, in the middle of the page we come to the financial sector, and we have two paragraphs on the bottom half of page 20. Ms Campbell would like to make a comment.

**Ms Campbell:** I'd just like to reiterate something that was said yesterday. I think Mr Johnson made a request to perhaps expand on what the Canadian Bankers Association said on the deficit and debt.

**Mr David Johnson:** That being, if I can just find it now, there was a quote in the brief from the CBA, the bankers association, "Some Canadians appear to still not understand the link between persistent deficits and job creation; that to create sustainable jobs and growth, we must stop the growth of the debt."

**Ms Campbell:** I think that's the quote we're including in an earlier section, so that takes care of that.

**Mr David Johnson:** So then that takes care of that here.

**The Chair:** Any further discussion on the financial sector? Seeing none, we move on to page 21, and we come to the manufacturing sector. Included under the heading of "Manufacturing" we have "Motor Vehicles" and "Auto Parts," but there are two paragraphs at the top of page 21.

1040

**Mr Sutherland:** I believe the Ministry of Finance gave some numbers. We have them in percentage figures, the increase here, but if actual numbers of new jobs that have been created in the manufacturing sector last year could be included, that would be great.

**Mrs Caplan:** The point I would make is that if we're going to do that, I think it's really important, because I also noted that we are not yet at the 1989 job numbers.

**Mr Sutherland:** Yes, and that's noted in here. That's in the second paragraph.

**Mrs Caplan:** But that's in percentage terms. I think if you're going to put in the number of jobs created last year, it's important to note that it still remains X numbers of jobs—I think it's around 200,000 less than what we were adding—

**The Chair:** So what you would like then is the researcher to find out what that 1.3% is and include that as a number.

**Mrs Caplan:** Yes, that's exactly right. I don't mind percentage and percentage. If we're going to do numbers, we should have numbers.

**The Chair:** Yes, that's fine. Ms Campbell.

**Ms Campbell:** I will go through the two briefs, the Ministry of Finance brief and the CMA brief, to see if I can get the numbers. It may not be possible to get the numbers. That may be the case.

**Mrs Caplan:** I thought they were in there already.

**Ms Campbell:** I'm just adding that as a caveat.

**Mr Carr:** I've got the submission in front of me and the numbers are here. They have done a five-year review and they've put the numbers in here. Unemployment when the government started was 6.3%, to 9.6%. It's point form; they were very clear. It was a five-year review of the government. It said it's appropriate at the end of the government's mandate to review it, and it's boom, boom, boom. Pretty self-explanatory.

**The Chair:** Is that total jobs or manufacturing jobs?

**Mr Carr:** They've got it broken down. They've got employment, non-residential construction. They've got residential investment, personal disposable income. For anybody who hasn't read that, that is a well-documented history of the five years.

**Mr David Johnson:** Just put in what they've got.

**Mr Carr:** Yes, well, I don't think we'll get it in, because if you read it, it's an overwhelming condemnation of the government's record too. So I guess it won't go in. But I caught it and the reason it is so good is that it is very easy to read. It was point form. So the information is there.

The other point I wanted to make just very quickly is, in the bottom portion, how they talked about the long-term economic prospects. It's also on this page. What they were talking about is the fiscal performance. Let's not put it in in a partisan way, being critical of the government, which they were. Let's just put it in that they are concerned about the fiscal performance in general, not being critical like their submission was; putting the facts in there but just that there was some concern.

The way we've left it, when we talk about long-term economic prospects—they were very specific on the fiscal problems being faced here in the province of Ontario. So perhaps we could just tighten that up and be a little bit more specific in what we meant by economic prospects—they were very, very clear that it's the fiscal perform-



ance—and be non-partisan in it. Let's not use their spin, which was critical, but just say they were concerned about the fiscal prospects.

**Mr David Johnson:** I just wondered, would it be helpful to legislative research if we give you—there is a paper from the CMA brief which I can give you right now.

**Ms Campbell:** I have a copy of it back in my office.

**Mr David Johnson:** You have a copy, which does indicate the 66,000 jobs—actually, 121,000 fewer jobs in manufacturing.

**The Chair:** Thank you, Mr Johnson, for your comments with respect to the first paragraphs at least of "Manufacturing." Ms Campbell, are you clear in direction?

**Ms Campbell:** Yes.

**The Chair:** There are two sections under "Manufacturing." The first one is "Motor Vehicles." Comments or discussion under the heading of "Motor Vehicles"?

**Mr Carr:** Very quickly, I don't know if at this point anything wanted to be put in. We put in earlier about the number of exports back on page 3, the total exports that the provinces had, the big increase in fact; that this province would be worse off if we didn't have some of the exports. I think in their presentation they talked specifically on their sector and the exports, and I just don't know whether we want to include something.

We talk about the number of jobs, and I just wonder if we could include the number of export-related sales or whatever was in their presentation, just to get a little bit more specific for them. Then when we get to "Auto Parts," we should maybe do that as well. I think they were both very specific in talking about exports, and that is the reason that both of those sectors are doing fairly well.

**The Chair:** Committee members appear to be in agreement with that. We move on to "Auto Parts," and Mr Carr has already suggested that the export factor be included. Any further discussion?

**Mr David Johnson:** In terms of the auto parts sector, the comment the manufacturers' association made was a strong recommendation that expenditure reductions be identified, that a tax regime that is competitive with other jurisdictions be put in place which would stimulate economic growth. I don't know if that's reflected in the comments here or not.

The verbiage that Elaine has used says, "It spoke of the erosion of the perception of Ontario as a good place to invest." I'm sure that's true as well, but my suggestion would be that Elaine have another look at the comments. I just read briefly:

"Once the required level of government services is identified and the plan for reduction in expenditures is identified, we need to put in a tax regime (including personal, small business and corporate income taxes, consumption taxes, payroll taxes and other taxes) which is at a minimum competitive with other jurisdictions and which helps to stimulate economic growth."

I think that was a central part of their brief. I'll simply

leave it with Elaine, if you can reflect one or two more of those points.

**Ms Campbell:** The instructions that were provided by the committee on February 16 were to make the "Sectoral Issues" section as sector-specific as possible. That's why you don't see such items included in this particular part. But if it's the committee's wish to put them there, they can certainly be included.

**Mr David Johnson:** Where would those general comments be placed, then, in that event?

**Mr Sutherland:** Under "Taxation," with the other general comments in the sections on taxation etc.

**Mr David Johnson:** Under the categories that we did yesterday?

**Mr Sutherland:** Yes.

**Mr David Johnson:** But then the problem there is, most of that is from forecasters, isn't it? The auto parts association is not considered a forecaster.

**Ms Campbell:** There was a section following "Economic Summaries and Forecasts" dealing with economic and fiscal policies and there was a section there dealing with taxation.

**Mr David Johnson:** I see. All right. One has to think of all this. This is why I get back to the point that it's too bad, when you have one sector, that it's not all-inclusive.

**The Chair:** We want to make the document as concise as possible, and certainly as long as we touch on all the subject matter that concerns everyone before the committee and the committee members, then I think that's important, and if we do it in a well-documented way I think that's—

**Mr David Johnson:** I give up on this one, Mr Chairman, but simply point out that I think that was the focal point, to me, of their deputation. If it could be included somewhere in one of the three sections that we seem to have, whether it's the forecasters' section or the general section that follows the forecasters or the sector-specific, then I think it would be reflective of their views, and perhaps even more so, than the piece that's contained here under "Auto Parts."

**Mrs Caplan:** Pages 14 and 15 actually have a section on taxation, where witnesses made specific references to taxation. I think it would be appropriate at either the bottom of page 14 or the top of page 15 to add a paragraph on the views of the automotive sector as it related overall to taxation and its recommendation for taxation in the future.

**The Chair:** We have some amendments to those pages already. I'm not sure if that was something that was included.

**Ms Campbell:** There were a number of recommendations made yesterday for changes to that particular section of the paper. My concern would be that if we're going to focus on what the auto sector said specifically with respect to the tax regime and expenditure reductions, perhaps we should include everything else, the other sectors as well.

**Mrs Caplan:** The way that you've done it in the sample was to say where you had a number of sectors

that agreed on something like that, where there was a powerful statement that was made by one sector that was a consensus view from a number. I'd have no problem including it in that way, in a more general way, that "While this was stated by the auto sector, it represented or reflected similar views from many of the other sectors."

1050

**Ms Campbell:** So is it the committee's wish then to add another paragraph to the taxation section on page 15 that will make specific reference to the Automotive Parts Manufacturers' Association and its concerns about the tax regime and expenditure reductions and indicate that this was representative of what other witnesses told the committee?

**Mr Sutherland:** We have information on those pages. The issue of payroll taxes is dealt with within the section on taxation and the reflection of the sentiments of the different business groups that came before the committee indicating their concern about payroll taxes. That is reflected in there.

**Mrs Caplan:** To be fair, it wasn't specific to any one tax. The view that I don't see reflected, and I may be missing it and I stand willing to be corrected, is the more comprehensive view on the need for taxes in Ontario to be competitive with its neighbours as it would affect exports. The point they're making that I thought was a good one was the entire tax regime, which would look at all of the taxes and the cumulative effect on competitiveness. The argument that they made in advice to the government was to make sure that your tax rates are competitive with those of your neighbours.

**Mr Sutherland:** I think we heard the competitors and I thought we had instructed research yesterday to go back, and out of the Canadian Tax Foundation's presentation I believe either Mr Carr or Mr Johnson had requested some further information be put into the report to that effect, on what the tax foundation presented to us. My sense was that they had originally asked for property and corporate, for two of them, and I suggested we should just have the balanced approach, if the information was there, to put that tax information in.

**Mrs Caplan:** In fairness, the point that I'm trying to make is that if this report is going to be balanced and effectively reflect what we heard—on page 15, for example, we have the Minister of Health offering those kinds of comparisons—I think it would be fair either just before that or just after that to say that we did hear a caution from industries and sectors such as auto, saying that the competitiveness of tax rates was very important to business and industry in this province.

**Mr Sutherland:** That's fine. Sure. I think that's an appropriate comment to put in there.

**The Chair:** It would appear the committee's in agreement with that. Ms Campbell, are your directions clear?

**Ms Campbell:** Yes.

**Mr David Johnson:** That's agreeable.

**The Chair:** That brings us two thirds down page 22, to "Research and Development." We have a paragraph.

**Mr Kwinter:** My impression of the deputants who appeared before us was that the presentation made by Dr Fraser Mustard was one of the most compelling and most far-reaching projections of those that we heard. A large part of what he had to talk about had to do with research and development. I know that he is referenced further along under "Social Issues," but I think it would be worthwhile that some of the things that he talked about and where he thought our future was in this area should be included in this section.

**Mrs Caplan:** Particularly the comments on innovation as they related to R&D.

**Mr Sutherland:** Just to add, I thought his points about the definition of wealth creation and some comments regarding that—we don't necessarily need to put the whole chart in here, but he provided some of the chart showing the difference between government and business investments in R&D from different countries and some sense of how we compare with the other areas. I think some point noting those figures would be helpful as well.

**The Chair:** Any further comments? If not, on page 23 we come to the resource-based sector and we have two large paragraphs. Any comments or discussion with respect to this sector?

**Mr David Johnson:** Just one minor one: The Ontario mining industry has been noted. One of the comments the mining industry made that may not be reflected, and somebody will tell me if I'm incorrect on this, is they've specifically noted the cost of energy, electricity, in running their industry. This is a heavy burden in their particular industry and they're very concerned about the cost of energy. I think they used the word "monopoly" in there somewhere in their presentation and the need to take action to ensure that the cost of energy doesn't increase. Is there any possible way that could be incorporated here? Is there any other point where that concern might be incorporated? Does legislative research think that might be—I don't think it's a paragraph.

**Mr Sutherland:** It could just go in that one sentence, "In spite of..." You could just add "energy costs" in there as one of the other concerns they've raised.

**Mr David Johnson:** Yes, exactly, something as simple as that.

**The Chair:** The committee agrees with that. Any additional comments or discussion with respect to this sector? Seeing none, at the bottom of the page and the top of page 24 there is a paragraph that outlines the concerns of the retail sector.

**Mr Sutherland:** I just wanted to ask Mr Johnson whether he thought we should go into a history of why hydro costs are so high. I'm just kidding.

**Mr David Johnson:** Can we spend the rest of the morning?

**The Chair:** No. I think we'll stick with our agenda and deal with the retail sector. Thank you very much, Mr Sutherland. Mr Wiseman, you wanted to make a comment on retail?

**Mr Wiseman:** No, thanks, not at this point.

**The Chair:** If there is no discussion, the next sector



is the transportation sector, two paragraphs, page 24. Is there any discussion or any comments committee members would like to make with respect to this sector? Seeing none—

**Mr Sutherland:** Hang on a minute.

**The Chair:** I'll allow the committee members an opportunity to review these paragraphs.

**Mr Sutherland:** I know both industries, the trucking and the rail, raised some concerns or their view about how they're taxed compared to some other industries.

**Mrs Haslam:** And each other.

**Mr Sutherland:** And each other. I'm just wondering if we should have some of the figures they presented to us noted in there.

**Mr Kwinter:** I think it might be useful. On the bottom of page 24, they talk about the concerns of the rail companies and they say, "Both systems felt that two particular provincial taxes were materially affecting their cost competitiveness: the locomotive fuel tax and property taxes on railway rights of way."

I think that's a correct statement, but again, I recall in their presentation—ideally every industry would like to remove all its taxes—I think their concern was that in an ideal world, yes, remove the tax, but even in an un-ideal world there was a problem and that was that the railways in most cases were there before the abutting users were and they now find that their taxes are impacted by the use of the land that abuts the railway. They use the example that when the SkyDome goes in, suddenly the value of the land that the SkyDome is on reflects on the value of their taxes, and that was a major concern for them, and I think that should be reflected.

1100

**Mr David Johnson:** To be fully accurate, rather than property taxes, it's the assessment that they're talking about. My understanding is that rail properties are assessed on the basis of adjacent properties.

**The Chair:** I think that's what Mr Kwinter was just saying.

**Mr David Johnson:** Except we've been using the terminology "property tax."

**Mrs Caplan:** It's the assessment which has the impact on property tax, it's not the level of property taxes themselves. I think that's just a clarification point.

**Mr David Johnson:** That's right. So it's the assessment.

**Ms Campbell:** So the wording—

**Mr David Johnson:** You just go back and check their brief. I'm sure their wording will be appropriate, but as the adjacent properties, assessment goes up, apparently their assessment goes up. I'm not sure if it's a one to one; my suspicion is that it is. It's simply assessed on the same basis as the adjacent property.

**Mr Wiseman:** They're assessed on the same level as the property that is—

**Mr David Johnson:** That's right. That's adjacent to you.

**Mr Wiseman:** The railway properties.

**Mrs Caplan:** But the problem is with the Assessment Act, which has an adverse impact on the property tax affecting the competitiveness of the railways. It's not the property tax itself.

**Mr David Johnson:** It's not the property tax at all, it's the assessment. It's the problem with the assessment situation.

**The Chair:** Which ultimately determines their tax.

**Mrs Caplan:** Although they did say it was the level of their property tax which resulted from the effect of the assessment tax increasing their property tax assessment.

**The Chair:** If the researcher is clear, that's the most important—

**Mrs Caplan:** That's what we want to make sure of. Got it?

**Ms Campbell:** I just want to clarify: In the third line from the bottom then, is it the committee's recommendation that the expression "property taxes" be changed to "assessment"?

**Mr David Johnson:** Apparently the issue is assessment and if the assessment issue is corrected—

**Ms Campbell:** Or the reference to "property taxes" in the last line. That last line could—

**Mrs Caplan:** I would suggest to clarify it that it was the locomotion fuel tax and the assessment of property taxes on railways' rights of way.

**Mr David Johnson:** You have to allow legislative research some leeway on this. I'm sure when she goes back and looks at the deputations, she'll know exactly what it is. Assessment is actually on property rather than on property taxes. You don't assess property taxes, you assess property.

**Mrs Caplan:** Or you could say "the assessment and the resulting property taxes."

**Mr David Johnson:** You could say that, yes.

**Mrs Caplan:** That would be accurate.

**Mr David Johnson:** That would be accurate, yes.

**The Chair:** I'm sure the legislative researcher will find the right semantics with respect to how to phrase this.

**Mr Sutherland:** Sorry to add one more view on to it. If you remember, what they said was that they were concerned about the change in the regulation under the Assessment Act regarding classification. Before that change, there was a separate classification for rail rights of way. After that change, what occurred was that they were assessed according to abutting or adjacent properties and they really were asking to go back to the separate classification for rail rights of way for taxing.

**The Chair:** Are you clear on the direction, Ms Campbell?

**Ms Campbell:** I think so.

**The Chair:** That makes me very happy. Any further discussion with respect to the transportation sector? Seeing none, that brings us to the utilities sector. We have two paragraphs on page 25.

Any comments or discussion with respect to utilities? Seeing none, then we have concluded this sectoral issues

section of this draft document, which now brings us to social issues. We have two pages of paragraphs with respect to social issues. Is there any discussion with respect to this section of the draft document? It would appear that the committee members are happy with the way this section's been drafted by the research officer.

The next section is transfer recipients, on the bottom of page 27. There's an opening statement, and then we deal with some of the direct transfer recipients of provincial dollars. Mr Carr.

**Mr Carr:** The only comment I wanted to make on that is just that I think everybody who came forward—the teachers, the trustees, the people from the hospitals—were all concerned. Again, we don't want to do it in a partisan way because I guess this issue isn't to be taken up in one, but there were very, very grave concerns of what's going to happen when the social contract ends. We touch on it just briefly, just say “the social contract.”

I'm wondering if there could be words to the effect that there was concern expressed by all sectors on what's going to happen when the social contract ends, and hopefully that will be such that it isn't partisan, because as you know, the government felt that it had to do that in light of our economic circumstances.

As you know, I asked that question to I think every group that come forward, probably to the point of not wanting to hear me when I said: “The money isn't coming back in the system. The Minister of Finance has said that and sat here and said that. What's going to happen at the end of the social contract?” I didn't get any answers, as you know. Most of them just looked at me and shook their heads. There didn't seem to be any answers when I asked specifically the teachers, “What are your members expecting when the social contract ends?”

I don't think we can leave it just as we did here, just one little line on the social contract. If we could expand it just a little bit to say there was—I don't know if “concern” is the right word, but there was some apprehension about what will happen at the end of the social contract in all the transfer recipients' presentations, because I think everybody did it, and we won't do it justice if we just leave it to the one little line that was included here.

**Ms Campbell:** Mr Carr, would you like another phrase added to that particular sentence, just adding to the common themes that emerged and adding as another theme—pardon my lack of fluidity in speaking this morning—“Concerns were expressed about the after-effects of the ending of the social contract,” or—

**Mr Carr:** Or just what's going to happen at the end of it, and we can put the date 1996 because it will be a new government that will be dealing with it. I shouldn't say that. A new government if they were to get elected. It's past the mandate of this government, in other words, so the next government's going to have to deal with that, and if we put that in there the way you've worded it there, I think that would be helpful.

**Mr Sutherland:** I think Mr Carr's comments are fine in terms of reference being made to that, as many of the presenters did do that.

We also, though, had the Ministry of Finance present figures in terms of some increased numbers of people receiving services—the number of students in schools, the number of patients in hospitals, long-term care services—and it would seem to me that some reference to them in this first paragraph would be a good idea, because most of those figures that are referred to involve the transfer payment agencies. So I guess we could have some of that included from what was presented.

1110

**Mr Carr:** I was just going to see whether it could be done there or specific to the municipalities, because I think what Kimble's getting at is—let's use hospitals as an example, where what the ministry gave us is the number of people who were being served versus the transfers, patients or whatever. So we could either do it at the beginning or specific to hospitals, because I think universities are doing that. I know colleges are doing that. My college tells me, at Sheridan, the number of students, the increase, and the amount of decreasing dollars and how they're servicing them. So what I would suggest, to be a little bit more specific, is if we'd get it under the categories and use the Minister of Finance figures, I think that would be helpful.

**Mr Sutherland:** Good.

**Ms Campbell:** So the committee would prefer to have those numbers appear in the specific sectors.

**Mr Carr:** Where applicable.

**Ms Campbell:** Even though those are summarizing the presentations made by the different MUSH sector representatives, you would like to have the figures provided by the minister put under each section.

**Mr Sutherland:** I have no problem putting it into each sector. I guess that's kind of the reason I suggested it go in the first paragraph, the individual ones, but if the rest of the committee wants it in each sector, that's fine too.

**Mr Carr:** I can't remember the Minister of Finance figures. I don't know if there were overall figures for all sectors. If there are, that should go in the beginning. Then if there's something specific to universities, we could do that where applicable.

**Mr Sutherland:** I'm not sure the figures break down specifically: universities, colleges and schools. I think it was an overall number of students in education and that type of thing.

**Ms Campbell:** I'll review the numbers and see where it's more appropriate to place them.

**Mr Sutherland:** Okay. Thanks.

**The Chair:** With respect to the topic “Transfer Recipients,” we have all the MUSH sector represented—municipalities, universities, community colleges, schools, hospitals—and there are several paragraphs under each of those headings. I would just like to place before the committee any discussion they might have on any of these.

**Mr Kwinter:** Under “Municipalities,” the second paragraph deals with the concerns of the Greater Toronto Area Mayors' Committee. I'm sure members of this committee will remember that the representation on be-



half of those mayors was made by Mayor Hazel McCallion of Mississauga. I think in fairness to her we should add one other line.

If you remember her presentation, one of her major concerns, and she expressed it as only Hazel McCallion can, was that if the soon-to-be-appointed, as it's referred to here, GTA—they had some concerns about it. One of her major concerns, I felt, was that she would be very concerned, and the other mayors would be concerned, if there wasn't some political representation. I think in fairness to her—and as I say, it's not a political bias of mine, as I have no feeling on it—she certainly felt strongly that there should be some representation of the mayors in the greater Toronto area on that task force. I think in fairness to her we should acknowledge that she said that.

**Mr Sutherland:** We probably should footnote the fact that the task force was announced on—I forget the exact date, but given the timing of when people will be reading this.

**The Chair:** The committee is in agreement with those two suggestions? I think they're clear.

**Mr Carr:** A quick question, because one of the major concerns, as we say in the first paragraph, was the need for stable and predictable funding. Where they have specifically talked about that issue, I take it we're going to include—I know we've done it in some of them, but each sector will include their specific recommendations, then, like we've done with some of them here? If it's not showing, I take it they didn't get specific on that issue, then.

**Mr Sutherland:** I don't think they did.

**Ms Campbell:** If the committee feels there's a need for greater detail, I'm certainly willing to—

**Mr Carr:** No, just the ones that were there, in my memory, some of the actual MUSH sector representatives—I thought mostly everyone—had talked about it, and I noticed in some of them we didn't have it, but it's no point. I just wanted to make sure that we did include it in each of the individual ones where they did talk about it, because my recollection is that all of them were talking about the issue. I know we've got it in the beginning, but if we're specific, I think we should include it in the sectors.

**Ms Campbell:** I may not have been specific enough for your request, but if it's the committee's decision to put in specific concerns about funding, that can be done.

**Mr Carr:** I was going to say that also includes, although I don't want it to get too long, the same thing on the continued strains of reduced transfers. Again, that was a major theme that came out from all of them. I mean, that was what they were here on, the transfers and the predictability and the stability and the amounts. I just wanted to make sure that we captured that. I think we've done that in reading "Municipalities," but I just want to make sure if we could check and make certain that we don't miss any of that, because their intention in coming, most of them, was to lay out to this committee their concerns regarding what's happening to transfers, because that's where they get the bulk of their money.

I just wanted to make sure we really had that tightened up, because I think what most of the transfer recipients are looking for in terms of the report was from the financial aspect of it, and I think we've done a good job in what I've read here. But if there are any that were missed, I think we should include them because it's very important to them and to the province.

**Ms Campbell:** I think you'll find that in each of the MUSH sectors there is a reference to funding. It may not be precisely what you would like it to be, but as I said earlier, I'm certainly open to changes.

**Mr Sutherland:** I was just going to say regarding the specific issues Mr Carr is raising, they all talked about the issue of predictable funding, combined and continued, and about the strains, but I didn't get a sense that we got a lot of specific sector-by-sector comments on that. They said they wanted predictable funding, and of course, as we all know, predictable funding can only be provided to these groups if the province itself has predictable funding and predictable revenues, and that has been shaken a bit over the last few years just because of the economic realities that we have faced. I'm just not sure how much more specific research she's going to be able to get, given that a lot of those comments seemed fairly generalized.

**Mr Carr:** What I was going to suggest too, because I think this captures it, they did come forward, most of them, if not all of them, and also talk about the fiscal reality that we're under. That's different from even three years ago when I was on this committee, when everybody came forward and said, "Give us more money," and "We want more."

I think if we could even capture in the beginning of this section words to the effect that most of the people who came forward—I don't know how you want to phrase it—that the sectors that came forward also recognized the fiscal reality of the province of Ontario, because I don't think I'd be wrong if I stated that's what came forward. Everybody from Richard Johnston with the colleges came forward and said, "We realize we have a financial problem here in the province of Ontario." For the first time in a long time in this committee the groups didn't come forward and say, "Give me more."

I don't know how we could phrase it. I think Elaine could gather some of that, but if we could put something in there that the MUSH sector did in their presentations express the indication that they realize that the province is facing a very tough financial situation and that they recognize that, and Mr Kimble expanded on one of the reasons—

**Interjection:** Mr Sutherland.

**Mr Carr:** Oh, sorry. Somebody did that last week, called him Mr Kimble, and I'm doing it again. Sorry, Kimble.

**Mr Sutherland:** It doesn't bother me.

**Mr Carr:** I'm sorry, Kim. I've known him five years and I'm calling him the wrong thing at the end. Sorry, Kim.

**The Chair:** The committee members will be pleased to know that Hansard corrects those errors.

**Mr Carr:** Do they automatically? Great. I wish they'd correct my other mistakes automatically. I'd be all right.

**Mr Wiseman:** They'd have to rewrite the whole thing then.

*Interjections.*

**The Chair:** Order. Mr Carr.

**Mr Carr:** I see after five years I still have a lot of friends on the NDP side.

**Mrs Haslam:** Look again.

**Mr Carr:** We used to start off here so nice. In the mandate everybody starts off nice and by the end of it everybody's grouchy at each other. But I'll close by just saying that I think that if we put that in there, it would be helpful.

1120

**Ms Campbell:** Just on the transfer recipients and to review what was discussed and decided upon, the committee would like additional references made in the first paragraph under "Transfer Recipients" to what will happen to the members of the MUSH sector after the social contract ends and state that they recognize the province's fiscal realities.

The committee would also like reference made under each specific heading, if possible, to the number of people receiving services in each sector, and that would be based on some figures that were provided by the Minister of Finance.

Nothing more specific on funding, or is the committee happy with funding references as they are?

**The Chair:** It would appear that the committee members are happy with that, Ms Campbell. It would appear that's correct. Mr Kwinter.

**Mr Kwinter:** You anticipated that I had something to say. I'd like to introduce something that maybe we can get some comment on. When we look at the idea of funding of education and particularly the funding of schools, it seemed to me that one of the presentations, and I apologize for not remembering exactly who made it—it was either the Canadian Manufacturers' Association or the shopping centre people—somebody certainly in the business sector was complaining about the fact that a company would locate in a particular community and its assessment for the school board would vary depending on the community it's in. They felt that every business in Ontario should sort of have the same yardstick applied to it for what its contribution is to the education component of the assessment.

I think that is something that should certainly be acknowledged or recognized, and it might be useful to put it in a section dealing with schools because it would have an impact if that idea ever received any kind of support. But it was certainly something that has been put out as being one of the reasons for some of our uncompetitiveness, and that, depending on where a particular plant is located, that particular component of its assessment may throw it into a position where it is no longer competitive.

I think it was a concern that was raised. I don't think we covered it earlier, but it might be appropriate. Even

though it isn't a school institution that's making the presentation under this sector, it would impact on the financing of schools.

**Mr Sutherland:** Under the section on taxation we had asked research to do a little more detail in terms of education finance issues. I guess under the section on the assessment of property tax we asked research to go back and do a little more on that specific issue. I'm wondering if that isn't maybe still the most appropriate area to have that comment incorporated because it really is more of an issue of how you're carrying out assessment than of specifically what is going on in the education sector.

**Mr Kwinter:** I have no problem with that. The only reason I was suggesting that we might consider it is that if it were ever to gain any kind of support and to be implemented, it would have a very definite impact on a lot of schools, both good and bad.

**Mr Sutherland:** Yes.

**The Chair:** There's your direction.

**Ms Campbell:** I'm still not clear whether the committee wants reference to these points made under "Schools" or under "Taxation."

**Mr Sutherland:** I think it's most appropriate under "Taxation" because we are dealing with the issue of assessment and, as I say, it really is assessment.

**The Chair:** We have agreement then with respect to that? Any further discussion on this section?

**Mr David Johnson:** You're talking about the transfer recipients?

**The Chair:** Yes.

**Mr David Johnson:** All of them?

**The Chair:** Yes.

**Mr David Johnson:** Okay. Because I noticed we were wide-ranging there. Just one little comment on the municipal section. I think it's well done, but there was raised the issue about municipalities being considered more as partners and less as creatures of the province.

I guess the Municipal Act and the structure that's in place clearly indicate that municipalities are creatures of the province and that they get all their authority and take all their direction from the provincial government. Anything they do is with the consent of the provincial government.

That's a fact of life. But in modern society where municipalities are becoming very sophisticated and very able to look after their own affairs, I think both of the presentations, from AMO and from the mayor of Mississauga, commented on the fact that it's time that municipalities were considered more as partners.

The opening comment of the second paragraph on page 28 starts to reflect upon that point, I think, where it says, "The GTAMC presentation spoke of the need for decisions to be made from the grass roots up, not from the top down." I just thought that if we added an extra piece on there, "and that municipalities be considered as partners rather than as creatures of the province," if that would be possible, I think that would be a true reflection of what they were hoping to achieve and what they were hoping to convey to us.



If the committee would consent to that, I see the legislative researcher is more than willing to go along with that.

**The Chair:** We're not sure about that. I wouldn't want to presume anything from any facial expressions or head nods, Mr Johnson, but we will ask Ms Campbell if the direction is clear with respect to that.

**Ms Campbell:** Yes, it is.

**The Chair:** And I would ask the committee members if they're agreeable to that. It would appear so.

**Mr David Johnson:** Good. Thank you.

**The Chair:** Any further discussion on transfer recipients? If not, then what this means is that we have concluded our direction to the research officer with respect to at least the draft report that we have in our hand. We now have to give her our very specific recommendations with respect to what we would like the Finance ministry to do. However, Ms Campbell.

**Ms Campbell:** I'd just like to check a few final things before we proceed. The memo that was handed out to the members yesterday had a number of items that were additional points for consideration.

On page 2 of the memo, at the bottom, there is a heading "Foreign and Domestic Loans." The summary of recommendations from the first week of hearings was distributed on February 15, and one of the headings under the section "Economic and Fiscal Policies" was "Foreign and Domestic Loans."

The following day research staff was asked to include reference to the recommendations under "Foreign and Domestic Loans" in the discussion of the financial sector. The recommendations really weren't that relevant to the financial segment as it will be written in after the comments today. Is it the committee's wish to include those particular concerns under the heading "Provincial Deficit and Debt"?

**The Chair:** Do we have agreement with respect to that?

**Ms Campbell:** One final comment: There had been some discussion during the report writing instruction phase about the preparation of an index. There were a number of members who expressed an interest in the preparation of such an item. They felt that it would allow readers of the report easier access to the concerns and recommendations of specific organizations. This memorandum has a rough index attached to it in the appendix.

Members should note that in those sections of the report that dealt with general issues it was not possible to include references to each and every group that appeared. A further complication is the fact that there were often references to abbreviated names of organizations such as "the ministry," "the minister," "the auditor." The way the index was run and as it appears here, it was not possible to catch all of those items. It may appear to be a rather quick and easy process, but it does take time and there will have to be a lot of checks and balances run. My question to the committee is, is it interested in including an index in the final report?

**Mr Carr:** I thought this looked very good the way it was and I thought that's great, it was able to be done.

But if there's more work that has to be done, let's not have you do the work.

1130

**Mr Sutherland:** Looking on page 1, and I think overall it's very good, you have "Minister of Finance," which I assume obviously is when Floyd was here and did his presentation, then we have "Ministry of Finance" and then we have "Ministry." I was trying to figure out the difference. Does "Ministry" mean ministries other than the Ministry of Finance?

**Ms Campbell:** That's to indicate the difficulties involved. There were specific references to the Ministry of Finance, then I asked our office staff to plug in the term "Ministry" and they came up with these additional page references, so there would have to be cross-referencing between the full name and the abbreviated name.

**Mr Sutherland:** Okay. So rather than "Ministry," should that maybe say "Ministries"?

**Ms Campbell:** It would be changed to "Ministry." It would all fall under Ministry of Finance.

**Mr Sutherland:** All right. Fine.

**The Chair:** Maybe the Chair missed something with respect to the index. Are we having an index now? I understand Mr Carr agreed that this is not necessary. Is that right? That's my interpretation of what happened.

**Mrs Haslam:** You have it. Don't make her go to extra work for what he wanted.

**Mr Carr:** I thought this was fine, acceptable.

**Mrs Haslam:** This was adequate for what he was asking for.

**Mr Carr:** Yes.

**Ms Campbell:** Another index would have to be run based on the changes that are made. This index is based on the draft report. It is now obsolete, as the Chair says.

**Mr Carr:** No, that's fine then.

**Mrs Haslam:** Now we're not having one.

**The Chair:** Now we're not going to have an index.

**Mr Carr:** She said it's a lot more work.

**Mr David Johnson:** It is a lot more work, is it?

**Ms Campbell:** It depends on how soon the final report is prepared. Time has to be taken to go through the document calling up specific names and it depends on how soon the full document is prepared. We wouldn't want to run it until the full document was prepared. There may not be enough of a time break between the time it has to be sent in—

**The Chair:** I'll remind all the committee members that we are under time constraints, because we are expected to have this document completed by Monday and all dissenting opinions must be presented to the Clerk by 4 pm on Monday. It's my opinion, and I'm sure the committee members would agree, that we don't want to unduly tax or create a situation that's impossible for the research officer.

**Mr David Johnson:** Can't we simply leave it with legislative research that if they can meet that deadline and do the index—

**The Chair:** That sounds like a very fair suggestion,

Mr Johnson. If there's time, it'll be done; if there isn't, then we won't have an index.

**Mr Sutherland:** Just on a point of clarification, I'm not sure on all the time lines between a copy of the report being tabled with the Clerk's office and then the normal publication and binding process. If there's a time lag between the Clerk's office and the binding process, that would give us more time to have the index put in the bound copy, rather than the copy that's just going to the Clerk's office.

**Clerk of the Committee (Ms Lynn Mellor):** There's a three-week time lag for translation and binding with the agreements that have been originally made by the committee that on Monday, if the Clerk's office receives everything by 4 o'clock, then a copy was to go for translation. I've spoken to the translators and it's a two-week job there, and then we have to look at a week for the printing and binding after the translators have concluded.

**Mr Sutherland:** Can the index process be done after it's all tabled with the Clerk's office?

**The Chair:** What are the implications of that, I would ask the research officer?

**Mr Sutherland:** Just to find more time for them.

**Ms Campbell:** If we have three weeks from this coming Monday, it should be possible. Of course, the index would have to be translated as well.

**Mr Sutherland:** If that option can be pursued—

**The Chair:** Can we leave this as an unknown?

**Mr Sutherland:** We'll leave it, yes.

**The Chair:** If it's workable, if it's possible within the time constraints that the research office and the process whereby this becomes a document will allow this to happen, then it will, and if it won't, it won't.

**Mr Sutherland:** Yes, that's fine.

**The Chair:** So we're leaving it in the hands of Ms Campbell at this point in time.

**Clerk of the Committee:** There is a problem with the translation. It wouldn't be simply translating the index that would be with the English version; you'd have to run the program on the French version.

**Mr Sutherland:** You'd have to have the index referenced to the translated version, yes.

**Clerk of the Committee:** It creates a major problem.

**The Chair:** Yes, it's very complicated.

**Mr Sutherland:** We'll leave it in your hands.

**The Chair:** I think our direction is clear now, that it may not happen, but it's certainly in your hands. How clear is that? Not very, I suspect.

However, to get back to our agenda here, we have completed the direction with respect to the draft report. Unless Ms Campbell has any further questions with respect to that, then the next step is the recommendations that we want to provide to Ms Campbell from the committee as a whole, understanding, of course, that there will be dissenting opinions from the Liberal caucus and the Progressive Conservative caucus.

I would like to say too that we will be having a subcommittee meeting immediately following our recess

for lunchtime, and before we go to lunch, I might add.

Mr Carr, you wanted to raise something?

**Mr Carr:** Yes. Just to move things along, as you know, we've already laid out a plan that we'll be introducing as part of it, with tax cuts, spending cuts, cutting barriers, cutting the size of government, balancing the budget. I don't think we're going to get agreement, so I don't think we need to go through it here today. Everybody's read it, and if they haven't, they can call 1-800-903-MIKE and get it. What we will be doing is putting that in, so I don't think we need to spend a whole lot of time getting into debate on it here, because I don't think we're going to have agreement on it.

What I would suggest, respectfully, as a result is that for the recommendation sections, the government does its, the Liberals may come in with us on ours—I doubt it—and we just submit our recommendations to the minister in the form of a dissenting opinion, formerly known as a minority report.

**The Chair:** There certainly is an expectation that this committee will make a report that can be presented to both the Finance minister and the House, and I think we must remember that.

**Mr Kwinter:** I'd like to comment on Mr Carr's statement. It's a little disturbing to me, because I think we have a situation where this is a standing committee of the Legislature. The standing committee of the Legislature is asked to make recommendations. I think what happens is that we have to do it as a committee, make recommendations and hopefully get approval by all parties. There will be issues, undoubtedly, that the official opposition and the members of the third party will not agree with and will want to put in a dissenting report, but I certainly don't think the structure of this committee anticipated that once the report was made, the government would give its recommendations, which would form the main recommendations of the report, and then the other two caucuses would present their dissenting opinions.

First of all, there may be lots of things we can all agree on, so they don't have to be put in a separate report, and only those things where there is disagreement would I think appropriately be in a dissenting report. So I don't think it's appropriate to say, "Let the government make all their recommendations, we'll make ours and the official opposition will make theirs and that will be it."

**Mr Sutherland:** What we've done the last few years is try and go through and develop as many consensus items on recommendations to the ministry, and then each party submitted its further comments of advice and recommendations.

If I interpret what Mr Carr is saying, he's suggesting that maybe we would not bother spending the time trying to come up with the consensus recommendations in the time we have left and that each of the three parties here represented would submit their reports on advice and that would be attached to the report.

This committee has operated a little differently maybe than others in terms of, once we have the consensus, it's usually been all three parties submitting some further comments that they wanted put in because they couldn't



agree on certain issues at the committee. Last year's report formally had two recommendations, I believe, to the Minister of Finance, and then the rest of it was a result of reports submitted by the three parties.

**Mr Carr:** Maybe I jumped to conclusions. I've sat on this committee for four years and I'm still waiting to hear the first Liberal recommendation, so maybe we can start with the Liberals, if they are prepared to come with a recommendation. Let's hear yours and we'll see if we can agree then.

**Mr David Johnson:** I don't know exactly where that will leave us, but it'd be interesting to hear those recommendations. Do I understand, Mr Chair, that the idea is now to start discussing what our recommendations should be to the minister as a result of the information that's before us?

**The Chair:** I know this is your first opportunity to be on this committee, Mr Johnson. Just to be helpful to you and to remind the other committee members, we as a standing committee have a job, and our job is to produce a report with recommendations for the Finance minister and for the Legislative Assembly. We do that as much as we can in consensus, the recommendations portion at least. I think we have a consensus on the actual report with respect to which we have just finished giving direction to the research officer.

It's clear now that the recommendations we are going to suggest be in the report, which we will deal with this morning if we have time, and if not, at this afternoon's session, will be recommendations that we will all have to agree with. If we don't, then there will be an opportunity, as you know, for a dissenting opinion with respect to recommendations. However, there is a necessity for this committee to make a report available for the public, the Finance minister and the Legislative Assembly.

**Mr David Johnson:** All right. I'm prepared to put forward a couple of recommendations which I would think the committee members could perhaps consider. I haven't got these written down, because I was not sure, but verbally I am prepared to—

**The Chair:** Let me suggest that in the given time we have I'm in the hands of the committee. We can start with the recommendations immediately or we can proceed at 2 pm sharp this afternoon when we will reconvene the committee. Given that we weren't sure where we were going to be with respect to giving recommendations to our research officer today, I would suggest this is probably a good opportunity for us to have some time over the lunch period to collect our thoughts with respect to the recommendations we want to bring forward to the committee. That might be the best thing to do.

We also have to have a subcommittee meeting take place immediately upon recessing this committee this morning. It's just a suggestion from the Chair. I'm certainly in the hands of the committee. Any further comments with respect to that?

**Mr Kwinter:** I would agree with that.

**The Chair:** Is everyone in agreement with that? If that's the case then, the Chair will recess this committee and we'll meet at 2 pm sharp to take into consideration

the recommendations from all the committee members that we would like to see in the report, and at the end of the day we will know where we have consensus and we will know where we don't. I'll remind everyone that the Clerk must have this report by 4 pm on Monday, and also the dissenting opinions, should there be any and I expect that there will be.

*The committee recessed from 1143 to 1412.*

**The Chair:** We are continuing with writing our report, and we are going to take recommendations. I believe we're going to hear from the government first, unless there is any dissenting opinion with respect to that opportunity. Therefore, Mr Sutherland, I'll turn it over to you.

**Mr Sutherland:** Okay. I think the sense of how we want to proceed is put some recommendations forward. Given that we're trying to find some consensus, some of the recommendations that are being suggested may be of a very general nature, as they have been in the past.

The initial one, and it still seems to me the number one priority, has to be the issue of job creation. So in terms of recommendation to the Finance minister in a general sense, I would suggest the first one we'd like to make is the recommendation to maintain job creation as a priority. Without getting into all the discussion as to how to make job creation the priority, which I think will result in some differing opinions, I would like to make that the first recommendation of the committee.

**Mr Kwinter:** Just on a point of information, are you going to be suggesting general themes in the recommendation? What I've just heard is what we're going to get?

**Mr Sutherland:** For the first few I'd like to do that, and then there are some of the actual recommendations made by the presenters that I'd like the committee to endorse.

**Mr Kwinter:** The point I'm getting at is, is there going to be a formal recommendation that's going to flesh out the job creation recommendation and what might be some of the things that could be done to do it?

**Mr Sutherland:** We could do that here.

**Mr Wiseman:** I can volunteer some.

**Mr Sutherland:** I can put some more points down. I think we can put—

**Mr Kwinter:** No, no. I'm just asking. Are you just saying the recommendation would be to maintain job creation as a priority, period?

**Mr Sutherland:** I would put forward "Retain job creation" as the number one priority, actually, in the budget.

**Mr Kwinter:** I just wanted to know what instruction—it isn't as if you're saying, "I think we should talk about job creation," and then someone will come up with a recommendation that's been fleshed out or anything.

**Mr Sutherland:** No, no.

**Mr Kwinter:** This is it? That's fine.

**Mr Sutherland:** "Job creation should be the number one priority," is the recommendation I want to suggest as the first one.

**Mr Carr:** I would agree with that. Obviously I think Kimble's right with this. How we do that, if we get into it, we'll be here all day, but I certainly could agree to the recommendation that the Minister of Finance make job creation, words to that effect, the number one priority in the budget.

**Mr Wiseman:** We've got unanimity. We should quit now.

**Mr Carr:** Yes. I didn't think we were going to get anything.

**The Chair:** Mr Sutherland, would you like to continue? Mr Carr wasn't here and we weren't on Hansard or in camera, but Mr Kwinter suggested that it would be a good idea if the government made its recommendations and then we could have yourself and Mr Kwinter either agree or disagree with the recommendations put forward. I think that probably is the best way to go.

**Mr Carr:** Perfect.

**The Chair:** I thank you for that, Mr Kwinter. Mr Sutherland, we'll just turn it back to you until you've run out of recommendations.

**Mrs Haslam:** What makes you think we're going to run out?

**Mr Sutherland:** Number two is that the government continue its efforts in deficit reduction.

**The Chair:** Any comments from Mr Carr?

**Mr Carr:** No, that's okay.

**The Chair:** Mr Kwinter?

**Mr Kwinter:** That's okay.

**Mr Carr:** That's very good. Just on a point of clarification: When we're doing this, are we doing it in any order of priorities? What I was going to suggest is, let's just make recommendations starting with these—I'm finding the numbers. But we may get down to something where we say, "No, sorry, that should be headed 'Deficit,'" and so on. Can we just make it generic and start with your list and then not worry too much whether number (1) is a priority? Certainly I can agree with "Deficit," so two for two.

**Mr Sutherland:** I will tell you that I would like to have the first two as (1) and (2) when it actually comes down to it. For some of the other ones there may not be any specific order that we want to follow, but those two should be (1) and (2).

In terms of some of the other recommendations that we heard, I think also we've had several recommendations related to that, reducing the regulation, red tape and paper burden. I would want to have a recommendation that the government continue the efforts to reduce the regulation, red tape and paper burden through implementation of the Clearing the Path initiative and unified reporting mechanisms.

**Mr Carr:** I would just change it a little bit. I agree with the theme in regulations and red tape. Where I couldn't agree is where it does get a little bit political, saying the continuation of Clearing the Path; if we could make it just a little bit more generic, saying this committee recommends that the government make regulations, red tape, and just take out what they've done.

**Mr Sutherland:** Okay.

*Interjection.*

**Mr Carr:** I know. Well, you've done a good job.

**Mr Sutherland:** In just trying to make it more specific, though, I think the concept of unified reporting is what most of us have heard as one way of doing that in reducing the overall amount.

The fourth recommendation I want to make at this stage is that the government consider, I'm not sure whether the right tool is levers, mechanisms, whatever, to encourage more investment in research, development, innovation, however we want to put that into an umbrella group, but with the information that Dr Mustard had presented in the sense that the country as a whole tends to be behind in terms of budget-setting, the ministry and the government have to examine that and try and find new mechanisms to help finance more research, development, innovation etc.

1420

**Mr Kwinter:** If I could have Mr Sutherland just tell me the first four or five words of what he just said.

**Mr Sutherland:** Oh, okay, sure. The recommendation I want is one that the government examine—I guess maybe it should be new mechanisms or levers for financing increased research, development, innovation.

**Mr Kwinter:** That was what I was trying to determine, whether you were just saying they should do it or you had some specific thing they should do.

**Mr Sutherland:** I don't have any specific recommendation.

**Mr Kwinter:** No, no, I don't mean that, but what I'm saying is that the government should be proactive. So when you're saying "examining new methods"—

**Mr Sutherland:** Yes, new ones.

**Mr Kwinter:** I didn't know exactly where you're—

**Mr Sutherland:** Yes, sure.

**Mr Kwinter:** That's fine. I have no problem with that.

**The Chair:** Mr Carr.

**Mr Carr:** The same with me.

**The Chair:** Mr Sutherland. You're doing a wonderful job, by the way.

**Mr Sutherland:** Let me just go to a couple of others. COCA made a recommendation about the advisory committee on capital spending, I believe, and their request for that, and I think that is a good recommendation. I just don't seem to be able to find it right offhand, but I would like us to incorporate that recommendation.

**Mr Carr:** What was it?

**Mrs Haslam:** COCA.

**Mr Carr:** No, what was the recommendation?

**Mr Sutherland:** The recommendation was that the government should establish I believe an advisory committee on capital spending. Is that the one?

**Ms Campbell:** What I have written here is, COCA recommended that construction industry leaders "be involved on a regular and continuing basis with the



Ministry of Finance and Management Board Secretariat" in capital planning and the economic needs of the industry.

**Mr Sutherland:** Oh, okay. I thought there was one specifically just on the actual carrying out of the capital plan or something like that.

**Mr Carr:** Should it be financing or something?

**Mrs Haslam:** Isn't it a permanent panel? Excuse me, Mr Chair. I found one that said "a permanent panel of public and private sector leaders to make recommendations to the government...."

**Mr Sutherland:** Yes.

**Mrs Haslam:** Is that the one you're talking about?

**Mr Sutherland:** Yes.

**Mrs Haslam:** On capital expenditures, emphasize that the construction industry—

**Mr Sutherland:** An adviser.

**Mrs Haslam:** Yes. That's the one that I've got.

**The Chair:** That's in our report.

**Mr Sutherland:** Oh. Okay.

**Ms Campbell:** The reading in the report is, "The Council of Ontario Construction Associations went so far as to recommend the creation of a permanent panel of public and private sector leaders that would advise the government on capital expenditures."

**Mr Sutherland:** Yes. I think I'd adopt that recommendation.

**Mr Wiseman:** The municipalities will go right through the roof on that.

*Interjections.*

**Mr Wiseman:** The municipalities won't like that.

**The Chair:** Mr Wiseman, you wanted to put something on the record with respect to that?

**Mr Wiseman:** Yes. I don't think that would be an appropriate recommendation, because the determination of what capital structures and what capital money should be spent should be done by elected officials and I think the municipalities would take a very dim view of a non-elected body usurping some of their rights that they see as being their rights as elected officials. I think we should tread very carefully on that jurisdictional boundary.

**Mr Carr:** I had more questions on it than anything. Is this for capital spending that the province is doing? Because there are the two points. What Jim is saying is, the transfers that go to capital to the MUSH sector, but there's also the provincial. I guess the concern I would have would be a panel—presumably that doesn't mean that they're paid for it. It should be non-paying, so there's no cost.

When we say "panel," I'm wondering, to maybe help with some of the concerns of Jim, even if we make it somehow words to the effect of allowing people like COCA, who maybe haven't been involved in the past, to be involved in some of the things like the new structures of financing. Maybe we could word it some way that would take in Jim's concern that they aren't deciding but they're advising on new ways of financing and so on, because I think even municipalities would like to see new

ways of financing if they could find them and the people who will come up with the answer will be the people like COCA who will be working with the government and the different ministries to work out how financing will happen on a project like the 407 or something like that. I think it can be worked out, but we can maybe take into consideration some of Jim's concerns, and I'll throw it back to the parliamentary assistant if he has any thoughts on how we could do that.

**Mr Sutherland:** Let me just say I think the intent of the COCA recommendation was that it would be strictly an advisory panel.

**Mr Carr:** Yes.

**Mr Sutherland:** The final decisions would obviously, as they must, still rest with the elected officials, but there was a concern or a sense of having some broader advisory committee. I don't even think their intent was, "Well, we're going to give you advice on this project and not that project." I think it would be setting overall themes, areas, what have you, of what the priorities should be in that way. Really, the intent is as an advisory panel.

**Mr Kwinter:** In the body of the main report, under "Public/Private Sector Partnerships"—and I think it was already alluded to—it says, "The Council of Ontario Construction Associations went so far as to recommend the creation of a permanent panel of public and private sector leaders that would advise the government on capital expenditures."

It would seem to me, and this has already been mentioned, that this would be inappropriate. They would automatically be in a conflict if they were recommending particular capital expenditures when they are going to be, in many cases, bidding on those contracts.

I have no problem at all with that sector being represented so that they can bring their expertise and their input into any decisions that are made, but certainly I would not think that it would be in the best public interest to have them making the decisions on capital expenditures.

**Mr Sutherland:** My last comments would agree with Mr Kwinter. It's not that they're making the decision; it's an advisory panel, and have it clear in the recommendation that it is meant to be an advisory panel.

**The Chair:** Having heard all of the concerns raised with respect to this recommendation, how should it read? And is there agreement with that?

**Mr Sutherland:** I guess what we're asking is that they "establish an advisory panel to provide advice on capital expenditures."

**The Chair:** Is there consensus on that?

**Mr Carr:** If I could be helpful with a bit of a compromise, I think what may scare some people, and off the top it scared me a little bit, and I guess Jim and Monte as well, is that once you start saying "panel"—I wonder if we could word it—

**Mr Sutherland:** "Advisory committee" then?

**Mr Carr:** Or even, "The government will look towards people like COCA and other people." I don't know the exact wording for some of the—if you want to use

the words that Monte said, I think it was "best expertise" in what should be done. But I think the concern is that when you start talking panels, then all of a sudden COCA will be on there deciding whether somebody gets capital grants in a particular area and who should get it. I know what you're saying—that isn't your intent—but I think we can get a recommendation because if we don't get the wording and get some type of compromise, then we won't get anything.

I don't know if the research assistant could be helpful in the wording, if she got what my drift was: not to make it a panel, not so that they have a final decision, but that we bring business, labour and government together.

The only other concern I would voice on behalf of the ministries is, I take it that with the parliamentary assistant putting this forward—and I'll ask the question to him, while you think about the wording, Elaine. I take it the ministries themselves agree with this and it's at least been run by them in terms of staff time to participate on a panel and so on. We're in an era where unfortunately a lot of the people and the civil servants are stretched to the limit because of cutbacks in numbers and so on, and to have them get involved in a panel without them approving it too—I just wondered if anything had been done in terms of the ministries saying, "Yes, that's not a bad idea," or whatever.

**Mr Sutherland:** I must tell you I really have no idea how the ministries feel about this specific idea. I think the sense of what they were saying is there are all kinds of advice provided now. They were looking for, I think, a more formal mechanism of ensuring that there is this broader input into the decision-making of the capital spending and where the priorities are. They also mention in the recommendation public and private, which would imply that it could be municipal officials advising as well.

1430

**Mr Carr:** Let's make the wording broad enough to include this.

**Mr Sutherland:** Sure, it's an advisory committee, that's really the thing. Maybe the word "panel" implies a greater—like holding hearings, reviewing decisions, whatever, and maybe if we called it an advisory committee rather than panel, we'd overcome that obstacle.

**Mr Wiseman:** I still have some very serious reservations about this non-elected body. What happens if you don't take their advice? What we created is a special-interest group that is going to be able to exploit and put forward its ideas and then have a platform to say that because it's there and it's supposed to be advising the government, you didn't take its advice and now, you know—

**The Chair:** If I could offer this, we have many people come before this committee and we won't take everyone's advice absolutely, but we will certainly take their advice in some way.

**Mr Wiseman:** But with respect to the groups that come before us, they're all very fine people and they all have independent groups and they have independent processes. This one has been set up as an advisory. If we

recommend that it be set up as an advisory to the government on these issues, then that elevates them to one status higher than everybody else, in my opinion.

**Mrs Haslam:** I was just thinking that there are advisory groups already set up in other ministries where you gather together everybody involved in the private enterprise of theatres and you meet with them and they come and advise the minister on some things that are happening in the community and around those particular issues, and you say, "Thank you very much; that's very good information," and you use it accordingly. So there are advisory groups out there. I don't see where this would be perceived as any more important than any advisory group that's already set up out there.

**The Chair:** I'm looking for that consensus.

**Mr Sutherland:** I would just continue with the concept of an advisory committee.

**Ms Campbell:** Could I read something back to the committee and they could make changes if desired?

"The committee recommends that the government establish an advisory committee made up of public, broader public and private sector representatives that would provide input to government decisions on capital expenditures."

**Mr Sutherland:** I like that wording; I'm very comfortable with that.

**Mr Wiseman:** I don't like the idea at all.

**The Chair:** I didn't hear what you said—

**Mr Carr:** But it was well worded.

**Mr Wiseman:** It was well worded, but I don't like the idea at all.

**Mr Carr:** I'll say on the record, Mr Chairman, that she took it and it was well worded. It might not fly, but that was exactly what I was trying to say.

**The Chair:** Okay, Mr Carr. I think, then, we have some dissenters but generally we have a consensus with respect to this.

**Mr Wiseman:** I'm going to have to write my own report now.

**Mr Carr:** Just on that point, if we don't have consensus, I don't think we should push it through.

**Mr Wiseman:** File me a minority report.

**Mr Carr:** Monte had some concerns too with that wording.

**Mr Kwinter:** No, I have no problem with that.

**The Chair:** No, and as I understand it, you have no concerns, Mr Carr, and Mr Kwinter was agreeable.

**Mr Carr:** I would have said it like that if I'd thought of it.

**The Chair:** It would be up to Mr Sutherland to get some consensus among the government members.

**Mr Sutherland:** I'm willing to put this one to a vote and see where the chips fall.

**Mr Carr:** Call COCA and tell them they're on too?

**The Chair:** I'm in the hands of the committee. If you want to make a motion—

**Mr Sutherland:** I'd like to make a motion that we



accept the recommendation as worded by research.

**The Chair:** Any further discussion? The motion is clear. I'm sure everyone heard it.

All those in favour? All those opposed? No recorded vote—I didn't hear a recorded vote—so the motion carries.

**Mr Wiseman:** I guess I have to write my dissenting report.

**Mr Carr:** The whole thing will be on interest rates.

**The Chair:** We'll turn it back over to Mr Sutherland for further recommendations.

**Mr Sutherland:** I'm not sure exactly how to word the next recommendation, but somehow I would like the government to examine this issue of the workweek or hours of work and overtime. I'm not in a position where I want to give any specific advice to the Minister of Finance or the government on what specifically should occur, but I do think the issue needs to be examined some more.

**Mr Kwinter:** I'm trying to be helpful. It would seem to me that we have a report and that particular issue is in the report. There's a whole range of things that ideally and hopefully the Minister of Finance will read. I don't think it serves any purpose for us to put things in recommendations that we're not really recommending. I would suggest that if we recommend something, it's a recommendation. There's no reason to comment on something that we've already commented on in the report.

**Mr Sutherland:** All right, fair enough. I'll accept that.

**The Chair:** Any further recommendations at this time?

**Mr Sutherland:** I have one other one that I would like to make, and some of my colleagues may have some recommendations they would like to make. We've had a lot of discussion and heard a lot of presentations regarding the issue of the \$50 filing fee. With that thought in mind and with the sense of how much work has been done, I'd like to recommend that the renewal process for the filing fee be a three-year process; in other words, you only have to renew it once every three years.

**Mr Kwinter:** I would like to speak to the general concept, and I wish I could find it, but someone made mention of the fact that one of the problems and one of the things that puts government operations in disrepute in the business community is when things are charged for no apparent reason and are perceived to be plain cash grabs. Someone said it and I can't remember who it was, but this particular measure falls into that category.

I have no problem with user fees as long as there's a rationale for them. I don't think there should be a user fee on anything that people expect from their government as a right, and they pay their taxes to get some service from the government. I don't think the government should say, "You pay us your taxes and then everything that we provide for you, you're going to have to pay for," because that's double taxation.

If there are services that are provided by the government that cost a relatively substantial amount of money

and are only demanded by a relatively small sector of the population, they should be prepared to pay for it. But any kind of user fee or any kind of charge that is implemented that can't be justified in why it is done should not be sort of watered down by saying, "Instead of one year, you can do it in three years." It's either right or it's wrong. If it's right, you charge them \$50 every year. If it isn't right, then it doesn't make it any more palatable that you'll do this every three years, because that's really what it is: a cash grab. So let me give you a suggestion.

I would have no hesitation and no problem with saying that every single time you change your registration or change your address or change your offices, you've got to pay a fee, because we've got to do that and that's part of the re-registration. But to tell every business where nothing has happened in the way of a change in their name, a change in their directors, a change in their ownership, "Every year you must send me \$50 so that I can" whatever—I don't know what you're going to do because nothing has happened; there's nothing that you have to do—is what has created the problem. People are saying: "Why am I paying this \$50? Nothing has changed. My company is the same as it has been, my offices are the same, my address is the same." It's a cash grab, and by saying, "We'll make it once every three years," you're not addressing the concerns.

**Mr Carr:** We've been very clear on this and what I was hoping is we could even go further and recommend that we eliminate it. As you know, the anger that's gone on for this is substantial. We put it in our small business task force report, of which I was co-chair, that if we form the government we'll eliminate that fee.

I don't want to get into speech time, because we've all had many letters on this. It was one of those issues that really twiggled business in the whole scheme of things, when you look at what's happened with workers' comp and hydro rates and everything. The amount, the \$50, wasn't a great deal but it was the principle of the thing, that there was one more government coming at them, and it generated a tremendous amount of anger. I don't want to get into all the details of that, but we've been very clear that if we form the government it will be eliminated. I'm hoping we could do that, go a little bit further than Kimble wanted and just recommend that we eliminate it.

1440

Having said that, I guess the fallback position is, it's better to go longer periods of time. I would hope we would take a look at it. I think the amount of revenue is in the neighbourhood of around \$10 million, if I'm not mistaken, but it is almost the final straw to business that really made it angry and upset, and I'm not telling you anything you haven't already heard.

If I could push the parliamentary assistant to go a little bit further and have this committee recommend to the minister that the corporate filing fee be eliminated, then we might be heading down the road and be giving a recommendation that I think would be something that business in this province would want. I would encourage us to go further, go all the way, and say that we would eliminate it and see what the minister does.

**Mr Sutherland:** Let me give you some more rationale for why we're not putting forward the idea of totally eliminating it but doing it on a three-year cycle. As you will recall with this, as this issue came forward the reason the ministry implemented this is because the filing names, that information, had become very much out of date. I believe it was in the early 1970s when there used to be a filing fee, a regular filing fee, and then I believe it was cancelled some time in the mid-1970s. My understanding is that you can see a sharp decline in the up-to-date nature of the corporate filing information records from the time that fee was taken off in the mid-1970s, not having that information come forward.

In terms of the implementation of the fee and with some potentially facing deregistration or whatever the formal terminology is, my sense is that those records are becoming far more up to date, and so the sense of having to have it done every year isn't there as much as it was when we first implemented it. However, I would suggest to you that with the total elimination you'll get into that same problem again that they got into the last time, when they eliminated in terms of those fees. That's why we're coming forward with the recommendation of having it done once every three years rather than as an annual process, because you will keep up to par that information the ministry requires and many others require.

I want to remind everyone again though, of course, the costs of having to get your business restarted, if for whatever reason you haven't fulfilled your obligations, can be very expensive. Getting yourself reincorporated can be \$600 or \$700. That is the rationale for going for the three years rather than totally eliminating it, to ensure that the information is being updated on a regular basis rather than just on an annual basis.

**Mrs Caplan:** Something is terribly wrong if you are suggesting that it costs \$50 per company to update those lists. The \$50 corporate filing fee is nothing more than a tax grab. It's another way of getting revenues from companies. It adds another layer of red tape and regulatory requirements and paperwork that drives them crazy.

It seems to me that it should be an obligation that when companies change their directors, or their information changes, they should have an obligation to send in that information. It also seems to me that it shouldn't cost the ministry \$50 to process that information. I think you could make a very good argument, which people would agree with, that the companies should bear the actual cost of doing that, but frankly and honestly, if it is costing you \$50 to update that information for every company, then you don't know how to run the place, because that is absurd.

I think that it is appropriate for us to recommend the elimination of an annual corporate filing fee of \$50 and suggest that the Corporations Act require that there be an updating of information—I think that requirement is already there—and further, that if you wanted to establish, in my view, a fine for not doing it, then you would have an incentive to making sure it was done. You want to build incentives in to make sure people do let you know when they change that information, but it seems to me that it should be done strictly on a cost-per-service basis.

If you were properly computerized, and I think you're moving in that direction, it doesn't take long, especially if you get into the use of kiosk-type technology, to let somebody just enter that information and have it done and the expense should be minimal to none, frankly. It should not cost \$50 to do that.

I think you've heard the message. The fact that you've put forward this proposal at this time as a recommendation to government I think is an acknowledgement from the government caucus that the \$50 corporate filing fee is bad policy and it's driving business crazy, and that a recommendation from this committee should be the absolute elimination of the \$50 annual corporate filing fee and that the ministry instead look at a strategy for making sure that its lists are updated and that the costs of doing so reflect the actual cost of processing the information, which I think you would find would be minimal.

**Mr Carr:** I was just going to say, in terms of if I'm sitting in there from the standpoint of businesspersons, say, in my area, I guess they'd say they would want it eliminated. If it isn't, then three years is better than every year. The problem is that in our minority dissenting opinion, whatever we want to call that, and we've already come with our task force report saying we're going to eliminate it, we will be recommending the complete elimination.

Where we couldn't support this recommendation is that we'd be saying to the government on the one hand the compromise of every three years and then recommending that we eliminate it. Unfortunately, as you've probably gathered, we can't agree to it because in the beginning of the report we can't say, "Okay, as a compromise we'll take three years over every year," and then call for its elimination. We've been very clear. It's in our small business task force report, boom, right in there about that.

If we could, the government hopefully—I will say this—will move on its own, because it doesn't need the recommendation of this committee to do it, and the budget will move to three years because three years is better than every year. But because it will be in our dissenting opinion report, we couldn't support the three years because we'll be supporting taking it out so that there isn't the annual corporate filing fee, if that helps, just as the rationale of why we wouldn't be able to support this. But I'm hoping the government will move forward because it's better than what is happening right now on an annual basis. We'll be dealing with it in our dissenting opinion.

**Mr Sutherland:** I guess the only comment I'd want to make is in response to Mrs Caplan's suggestion about having a fine. If you had a fine, then you're going through the enforcement process and the cost of enforcement and extra costs that way are somewhat prohibitive. I think it would end up costing you more than you were receiving.

**The Chair:** We don't have consensus with respect to this recommendation, so I'm asking the—

**Mr Sutherland:** We'll deal with it in a different way, then.

**The Chair:** Thank you, Mr Sutherland. Any further



recommendations from the government caucus at this time?

**Mr Sutherland:** Those were the ones I wanted to have. I don't know if my colleagues have other recommendations.

**Mrs Haslam:** Mine in particular dealt—and it can again be in a general way. On page 20 we see the Ontario Arts Council and the Toronto International Film Festival Group brought forward recommendations. While we probably can't be as precise in our recommendations, I would like to indicate some support for the understanding of the value of this particular sector industry and recommend maintaining wherever possible our support, and in a monetary way, for this sector. They came up with an exact dollar amount and I feel it's very inappropriate for us to put that exact amount in, but I do feel we all agreed that the support for the arts and culture community should remain foremost considering the economic reasons and considering the cultural reasons. I wanted to see if we could investigate some sort of recommendation along those general lines.

1450

**Mr Carr:** The only problem I have with doing that is, as we've said before, once you take somebody out and specifically target them, then other groups—I'm understanding what you're saying. Let's be perfectly honest: I took a lot of heat because we've called for our cuts. I got a lot of heat even from the Liberals, and I look at the federal budget where they got hit very hard. I was told—I forget what happened and we don't want to get into it—that we were terrible in not supporting the arts. Of course, what happened at the federal level was worse than what we propose to do.

Besides that, my big concern is that when you target somebody out and say it's an important factor, which it is, and we all know the numbers in terms of the spinoffs, then if we don't do another sector, we could be in a little bit of trouble. Maybe I'll ask the member to address this, if there's any way she can see that we can address this without making it look like one of the groups that came forward is more special than anybody else, because as you know, in this province the auto sector, agriculture, the arts, there are just so many that make this province what it is. If she has any recommendations, we can do that, and how do we answer the question that by particularly putting forward one group for special status, if I want to use that term, we may be alienating some of the other groups? That's in the form of a question.

**Mr Wiseman:** Maybe a generic recommendation to the minister that consideration be given to the multiplier effect of investments that on the surface may seem to be minor and unimportant but result in huge returns in terms of jobs and paybacks to the government before any cuts are made, or some kind of phrasing in that respect. That way it's generic and that way it also talks about the impact and the positive nature of a whole host of groups. I know what my colleague is considering. There are multipliers and there are investments that can be made by governments that do have a huge payback and they shouldn't be cut just because that seems to be what's happening, if you follow.

**Mrs Haslam:** I understand the concern, and you're right about taking a particular entity out. I just know time and time again we seem to deal with the industrial sector more than we think of the arts and culture community as an industrial sector. While they have worked very hard to change that attitude, I think it was very clear when they came before us that while we don't want to single out a specific sector, this is one sector that has a dual edge to it. That's why I wanted to see us in some way show the merit of support to them. I couldn't come up with anything more generic. While I agree a multiplier effect would be good, it could apply to many different sectors and many different areas, depending on what the reports are and what the multipliers are.

I just don't know if the researcher could do anything along those lines. I'm in the hands of the committee. I just feel very strongly about this particular sector and support to a cultural and arts sector, not just because it is an industrial sector, but there is also the aesthetic part of it and too often we look at it as only an aesthetic part and not an economic part, and now we're looking at it as an economic part, but I don't want it just to be an economic argument. There are dual edges to this particular sector. That's all.

**The Chair:** Certainly the efforts you've made to have this included in the report are recorded on Hansard, but I think Mr Carr has—there's some merit in what he says with respect to our singling out the one area.

**Mrs Haslam:** I agree.

**The Chair:** I guess then it would lead to the question, do we want to put a generic information statement, as Mr Wiseman has suggested?

**Mrs Haslam:** I can't see it working to what I had in mind, so I'll just pass on it, thank you very much. It was worth a try because I feel very strongly about it.

**Mr Jamison:** My thought really boils down to something that we haven't broached a lot directly. Just let me preface a little bit by saying that all governments are living in times of real change as far as their economies and their cash flows and what not are being affected, debt and deficit levels and so on. The whole question of deliverance of services is one that—our society is the kind of society that is based on the services that are delivered and I think governments have to continue to be vigilant to understand that as recently as two days ago a different way of partnership was talked about at the federal level. Provinces are going to still have some regulatory mandate from the federal end as far as what basics the program should include, but again I think it's going to be very important that governments maintain their vigilance in streamlining the delivery process of services.

We haven't really mentioned that a lot here today, but one of the largest costs on government is in fact the delivery of services, whether that be in social assistance, the social services end, the health care end or the services that are delivered through the educational system. That's where the real budgetary pressures are. That's 70% of the provincial budget, so I think maintaining as much of those services—and in some areas there's pressure to enhance those services ongoing. I believe we should be

looking at ways and means of being more efficient in the delivery of what government does.

**The Chair:** I just want to get some clarification. I've been listening carefully and you've given two, I think, recommendations: One was being more efficient with respect to the delivery of services and the other one was, I heard you say, "maintain the services of 70% of the—

**Mr Jamison:** That was basically a side note, Mr Chair. Regardless of there being fewer dollars, there continues to be a tremendous pressure out there related to the need for services in particular areas. That's not going to go away, nor will it probably ever go away if you have a growing province.

**The Chair:** So your specific recommendation is that the government deliver services more efficiently, effectively?

**Mr Jamison:** I know we have looked in that area, but that we continue to be vigilant in looking at the way services are delivered. I think that's an important factor just in considering that the three major services we normally call services—education, social services and health care—account for some 70% of the provincial budget. I think that's something all of us have to recognize is a major challenge to every government.

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**Mr Carr:** The only comment I want to make, because obviously everybody agrees with that statement, is to see if we could be a little bit more specific in something that we could do because that certainly would be the goal. I think all three parties could agree with that, but the other recommendations, while fairly broad, have been a little bit more specific.

I'm just wondering if there's anything we can do to tighten it up, and I'll throw it over to Monte and then I'll maybe come up with a suggestion in a minute. I just think we can maybe tighten that up a little bit. We all agree with the principle, but I don't want to be making recommendations that the minister then has to look at and say, "What does this mean?" He'll probably be saying, "We've been trying to do that." If he's looking at setting up a commission that would look at overall government services and a better way to operate, I don't know if that would be what the member wanted. Presumably each government ministry is doing that. Hopefully we can tighten it up, and I'll see if Monte has any thoughts on it.

**Mr Kwinter:** I'm in full agreement with Mr Jamison's recommendation. Maybe we can go back to some of the wording we use in the second recommendation, "that the government continue its efforts in eliminating waste, duplication, increasing productivity and making sure that services are delivered in the most cost-efficient and timely manner." Does that do anything for you?

**Mr Carr:** Yes, that was good. I don't know if we can even go further. Certainly I can agree with that as a minimum. I don't know if we want to get into—we'd better not; I was just going to say whether we want to get into offering some things like sunset clauses on some legislation or something like that. If not, the way Monte has left it is fine by me.

I'd maybe even go further, that the government

should—or maybe that's another topic; I don't know—explore some of the provisions for sunset clauses and different things like that, because I think, as everybody realizes, we can't do it the same way. All governments and all parties did it when legislation was put in in 1976, when David was 10 years old, and 20 years later it's still in there. These things have to change.

I would like to be a little bit more specific, if we could, in terms of maybe even offering a suggestion, and I use that sunset clause as an example. If not, certainly the way Monte has worded it may be helpful for the minister.

**Mr Jamison:** I believe Mr Kwinter's wording is appropriate. I really don't believe that I want to be overly specific to the Treasurer, because I believe that the Treasurer is the person who has to really put forward a budget. But I believe in general terms the report, if it lacked that particular thought in it, would really be missing a major area of provincial budgetary measures. So I tend to agree with Mr Kwinter's wording.

**The Chair:** I believe we'd like to hear Mr Kwinter's wording again. I don't think the research officer got it verbatim.

**Mr Kwinter:** I didn't even give it verbatim. I just was speaking. I don't recall exactly what I said, but let me tell you what I think—

**The Chair:** It would be recorded in Hansard, most certainly.

**Mr Kwinter:** Yes. Let me tell you what I think I said: "That the government continue its efforts to eliminate duplication, waste, encourage productivity in a timely and efficient manner." I may have said it slightly differently.

**Mr Sutherland:** Yes. I think you just left out "delivery of services" this time. Increase productivity in it—

**Mr Kwinter:** Oh. Okay.

**The Chair:** I think we have agreement then on what the statement was. Research officer, Ms Campbell, are you clear on that?

**Mr Carr:** I think in that statement what's implied is that working with other levels of government, with the municipalities as an example, is what we're talking about doing. But I don't know if we can get even more specific in terms of trying to eliminate the duplication that's happening now with people like municipalities. I assume when we say "duplication" we mean with other levels of government, both up and down.

**The Chair:** Mr Jamison was speaking more specifically about—

**Mr Jamison:** No, that's not what I was indicating. I was talking about our own responsibilities within governance, the delivery of those services. If we want to talk about transfer payments and all of that, that's something that—

**Mr Carr:** I didn't mean to start something. No, that's fine.

**Mr Jamison:** Today, I really don't want to do that. What I believe is that we have to focus on what the province does with its tax dollars and continue to try to



effectively deliver services in a more efficient way.

**The Chair:** I think we're clear on that now. Any further recommendations from the government caucus? If not, then we'll go to the official opposition. Mr Kwinter.

**Mr Kwinter:** Before I make one recommendation, I should say that I'm very pleased with the recommendations that we have got consensus on. It's covered a pretty wide area of concern to us and to others. Having said that, we may have some other recommendations. I have to apologize that our Finance critic is not here and as a result he may have some things that he wants to talk about. But I want to address one very, very key area. It is one that is very sensitive but it is also one that I think goes to the credibility of this committee, and that is the appearance of the Provincial Auditor before this committee and his recommendation.

I have spoken to this issue at length and I think it's necessary that we understand exactly what the issue is. It is not an issue as to whether the government uses the cash payment or the accrual method of accounting. That is absolutely in the purview of the government. They can choose to do it any way they want to. They may get criticism, but that is their choice.

I'm not in any way at this time questioning whether the government is doing one or the other or the merits of one or the other. But you should know that when the auditor audited the provincial public accounts in 1992-93, he "qualified his opinion of the province's financial statements. He felt that the statements, the result of modified cash accounting procedures, did not fairly present expenditures for that fiscal year. He recommended that during the 1993-94 fiscal year the government base its financial statements on the recommendations of the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants."

I'm reading this from our own report. The reason I say that is that he also goes on to say—or I'm not sure that he did, but maybe the researcher did that. It says, "(His audit of the 1993-94 statements was based on those recommendations)," and: "The Minister of Finance responded to the auditor's recommendations in October 1993. He agreed that government accounting practices could be revised to reflect advances in public sector accounting practices."

The point I'm making is that if this committee had said, "The government has chosen not to go on the accrual basis, has made a commitment that somewhere down the line"—because later on in the report it said, "Ministry staff would analyse and evaluate the impact of implementation for the year ending March 31, 1994, and strive to introduce change in that fiscal year," and that there might be some difficulty, given the complexity of the task.

The point is that this change has taken place. The government has agreed that: "Yes, we agree with the auditor. We will now report our finances on an accrual basis and we will do it in a way that was recommended not only by the auditor but the PSAAB and the Canadian Institute of Chartered Accountants." I would have every sympathy with the government if it said: "This is a very, very complicated process. It's going to take a lot of time.

We need some time to do it." But they've already made that commitment and they've already done it.

We now have a situation where we are facing a budget. The budget decisions are very complicated, but the presentation and the preparation of the budget is a very simple thing, because once you've made the determination of where your revenues and your expenditures are going to be and what your fiscal policy is going to be, the actual presentation of the budget and the preparation of it is not a very onerous task.

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Where we have a problem—and this wasn't just mentioned by the auditor; it was mentioned by several of the presenters to our committee—is that once the government has made the determination that in fact it is going to adopt a specific procedure in its reporting of the financial state of the province, there should be consistency. It makes no sense, other than maybe political sense, but it makes no sense from an economic point of view to have the government say, "Yes, we are going to be reporting the state of the economy based on an accrual method when we give our statements to the auditor, but in our budget presentations we are not going to do it."

The problem that you have is that the budget is a very important document. All you have to do is look at the events of this week. It was literally reported around the world. It was reported, it took up reams and reams of paper, hours and hours of air time. It is a very important document. When the financial affairs of the government go to public accounts some 15 months down the road, it gets hardly any mention, if any. It's nothing. The budget is important. The pros can read it properly, and the government may say, "Every figure that we have is in there," but it's the point of how is it reported and what is the perception of the people who see that report.

I'm not trying to be difficult or anything else. I don't understand any rationale where the Treasurer of Ontario, the Minister of Finance, would say: "We have agreed to state the financial position of Ontario adopting the recommendations of the PSAAB and the Canadian Institute of Chartered Accountants and also according to the requirements of the Provincial Auditor. We've agreed to do that and report it that way, but"—for some reason known only to him and his political colleagues—"we are not prepared to do that in our budget." It doesn't stand up to any kind of rationale other than crass politics, and I'm not trying to bring a political sort of slant to this. How do you justify it when you say, "Here's the way we keep our books, but unfortunately we're not going to report it that way in the budget"?

Again, without trying to be repetitive, if they had said, "We have heard the concerns of the Provincial Auditor, but for reasons that we think are important to us, we are not going to adopt the accrual method of accounting," he could complain and he could say, "I will keep giving you qualified statements," or he could do whatever he wanted to do, and that is not my point; I'm not sort of making a value judgement one way or the other which way the government should be.

But once you've made that determination, and once you say, "This is how we keep our books," not to have

consistency in the way you keep your books and the way you present your budget defies any rational explanation. It's like you can't go to the tax department, you can't go to the banks if you're a private citizen and say, "Listen, I keep my books this way, but here's what I'm telling you." It doesn't work that way.

It would seem to me that as a committee, where we've heard this not only from the Provincial Auditor—and when I say "not only," I don't want to minimize the Provincial Auditor. I'm telling you that here's a man who was given responsibility for guarding the integrity of that document for everybody, and he is calling for a presentation that is in accordance with the way the books of the province are being held.

I am recommending that we recommend to the Treasurer, and to even give it some leeway, that whatever way he keeps the books that are presented to the auditor, the budget should reflect that. If he wants us to go back to the other way, that's his prerogative and he can do it, but to have one accounting method for the public accounts and another accounting method for the presentation of the budget defies any logical rationale.

My recommendation would be—and again, if this would make it a little more palatable for my colleagues across the room—to just call on the Treasurer to present a budget that is compatible with the way the books of the province are kept, period. Let him decide how he wants to do it, without using sort of pejorative terms like double bookkeeping and everything else. Just say: Let's have them compatible. The budget should reflect the way you keep the books so that when we compare one with the other, we know what we're comparing. I would make that recommendation.

**Mrs Caplan:** I'd like to speak to that. I agree substantially with just about everything my colleague said except for two points.

The first point that I feel very strongly about is that the government should not at this point have an option of referring to an all-cash method of accounting. The reason for that is that they made the change because the Provincial Auditor would not attest to the books in the way they were because all-cash accounting is outdated as a method of presenting clear and transparent and understandable books. Cash accounting does not meet generally accepted accounting principles in this day and age for public institutions.

To meet those who would say, "Well, it did not long ago," the answer is, it's true. Times have changed and the standards have evolved. It is also true that not all governments are on an accrual basis now. My colleague Mr Kwinter is quite correct. But everyone is moving in that direction, and I think it would be a foolish step backward for the government of Ontario to not take that next step of making sure the budget was also presented in the way that the Provincial Auditor has suggested the public accounts be tabled.

I want to make it very clear that I support the notion that the Provincial Auditor has an extremely important role to play when it comes to the test of accountability and credibility for the government, that it is important, in my view, that they take his advice on how their books

should be presented to public accounts—and they did that—and that it is equally important for them to take his advice on how the books should be presented in the budget.

I know the government has said the budget's not a set of books, it's a planning document, and they're quite correct. The budget is a planning document, but it is then compared to the set of books, and if they are presented in two different ways, as the Provincial Auditor said, that is confusing to the public of the province of Ontario.

I think that in the interest of the public, the public interest dictates and says that you must make it as easy for the average person to understand what you're doing as you possibly can, and the reason is that that's the way they will then have confidence in what the government is doing, if it's presented in a way which is clear and transparent and understandable.

What the Provincial Auditor said to you was that you've taken the first step: You've presented your books at public accounts on an accrual basis that meets generally accepted accounting principles. On those grounds, this year he was able to give you an attestation, an unqualified testament to your books, which he did not do the year before when you presented the books in a cash accounting method. This year he's come before this committee and he said you must take the next step. In fact, I'm going to quote him. What he said was: "Tell it like it is. End the confusion."

I don't think you could have heard anything clearer. "Tell it like it is. End the confusion." That's the advice of the Provincial Auditor. In order to do that, with all due respect to my colleague, that means taking the next step and presenting your budget using the accrual method of accounting and generally accepted accounting principles. That's point number one. I think that's good advice to the government and I hope we will include that in the report.

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What I would like to see is a recommendation that says the committee very clearly heard the Provincial Auditor say to the government that it must tell it like it is, that it must stop the confusion, that it is in the public interest. That will make them fully accountable and they should do that. That should be the recommendation of this committee, that the coming budget they are going to table in the Legislature should be presented in a way which is compatible with the public accounts and meets the test of generally accepted accounting principles and the test that the Provincial Auditor in the province of Ontario has suggested to the government. As far as I'm concerned, that is absolutely an essential recommendation in this report.

The second point where I would disagree with my colleague Mr Kwinter is that I think it's good politics to do it that way, and I'm going to tell you why. Today people are very cynical about politicians and those of us in public life. They are cynical because they think we don't tell it to them straight, that we don't give them the facts, that we obfuscate wherever possible.

When we discuss complicated issues with them, we have an obligation to do what we can to be as clear, as consistent and as straightforward as we can be. We have



an obligation to do everything we can to help the public understand the complex issues of public policy, the complex issues of budgeting, the complex issues of fiscal planning and economic policy. It is good politics to do that because that will help restore the confidence of the people of this province. That will help them to be less sceptical and less cynical about all of us in public life.

It pains me when people hold those of us who have chosen the political arena in low esteem, when they don't respect what we do. I am pleased that so many of my constituents usually end their condemnation of politicians by saying, "Except you, Elinor." It does please me that they say, "We know you."

**Mr Sutherland:** My constituents say the same thing to me.

**Mr David Johnson:** It's a hard sell.

*Interjections.*

**Mrs Caplan:** I'm making a point of saying this because I hear this all the time, as I'm sure many of you do, that people are very cynical and they're very sceptical.

**Mr Wiseman:** They don't trust you but they trust me.

**Mrs Caplan:** The point I'm making is that you could help that and it would not only be good politics, it would be the right thing to do. It would be the right thing to do to help deal with cynicism.

I want to remind you that in the very first throne speech that was tabled by Bob Rae and the NDP government almost five years ago you made a commitment to do everything you could do to address the issue of public cynicism. I say to you that when you thumb your nose at the Provincial Auditor, not only do you betray that promise you made in the throne speech but you betray the people of the province. You raise the level of cynicism, you encourage that scepticism, you allow them to continue to hold governments and politicians in low regard, and that, my friends, is bad politics.

I understand what your problem is when I say that. I understand your problem is that your deficit number will look larger when you use the Provincial Auditor's method of accounting. He says your deficit is not \$8.3 billion, it is \$10.9 billion or thereabouts—I must admit I stand to be corrected if I'm off—and there's a \$2-billion gap, approximately, in your deficit number. That would be hard for you to explain, and I think that's what Mr Kwinter was referring to when he said that would be bad politics for you.

But I want you to know that the people don't believe your numbers. They believe the Provincial Auditor and they know what the real number is. Even if they don't know what the real number is, they know that your numbers are not the real numbers. So you have an opportunity and this committee has an opportunity to put in its recommendation, that recommendation to the province, to the Treasurer, to Bob Rae, to make sure that his books comply with the advice of the Provincial Auditor.

I sincerely hope this committee will include that recommendation in its document in a very strongly worded way, because the only way you're going to

restore confidence in any of us in public life is if we start to tell it like it is, tell it straight and assure the public that when the Provincial Auditor gives advice we heed that advice.

I've heard what he says, and we've made the commitment that should we be given the opportunity to govern, our books will be kept on an accrual basis, generally accepted accounting principles, and our budget would also be presented in a way which is consistent with those principles. You can do it too.

**Mr Sutherland:** I must say, though, that I think myself, many of my colleagues and much of the province are waiting for a clear and straightforward fiscal and budget approach from the Liberal Party of Ontario. We're waiting for some fiscal and budgetary policy from the Liberal Party of Ontario. So in terms of talking about this high and mighty stand on being straightforward with the public of Ontario, put some policy out there and then maybe you can take that high and mighty stand, but people are still waiting for that.

I take strong objection too to the comments by Ms Caplan that we're thumbing our nose at the auditor in terms of what is going on here. Let's be very clear about what has occurred. The auditor requested, as a result of the new standards developed by the Public Sector Accounting and Auditing Board and standards he believes in himself, that we change from a modified cash basis to an accrual basis for the public accounts. I want to reiterate here, because Ms Caplan used the term again, referring to the budget as a set of books—

**Mrs Caplan:** I said it wasn't.

**Mr Sutherland:** Well, no, you did say it was a set of books today and when we had the actual debates before you referenced it as being a set of books, and I want to repeat what the auditor said, that the budget is not another set of books. The public accounts is the only set of books. He has asked for them to be changed, he acknowledged in his presentation that they have done and Mr Kwinter certainly acknowledged what the ministry and the government did in terms of fulfilling those requests from the auditor.

If I may go back and reiterate some of the other comments that were made, somehow there's some sense that this is our government's attempt to hide something here. We're not in the process of hiding. All the information, all the facts are in the budget document. They're presented there. All the capital expenditures, if you go to page 115, are highlighted in the budget document. The Minister of Finance has given his commitment, and I think everyone would agree that Mr Laughren is certainly a man of great integrity and principle, that he will present a comparison in the budget document of the two different approaches in terms of how the budget could be presented.

If you look at what has occurred over the last few years, you've had the auditor encouraging the Finance minister and his own personal commitment of opening up the budgeting process, of providing more detailed information, and that process has started from day one, from the time he was there. If you go back and look at the history, you know that the Tories had a very, very

secretive process. I believe it was only in the mid-1980s, 1987-88, that this committee started holding pre-budget consultations, that the process was opened up a little more, I believe under Mr Nixon. Through what now goes on, it is a far wider and even more open consultation process for initial input. I believe Floyd has continued to provide more detailed information in the budget documents each year.

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So you have a process of that continuing. The auditor asked for changes in terms of the public accounts. The Finance minister agreed to his request—certainly did not thumb his nose at him. He has asked for more detailed information and the Finance minister again has not thumbed his nose at the auditor. He has made a commitment that he will provide a comparison in the budget document. Those things are important to remember.

I also want to reiterate that there are several other provinces with governments of all political stripes that do not present their budget documents in the same accounting fashion as they carry on their public accounts process. So this isn't like something that we've just created for our own sense of how we think things should be done. There is an evolutionary process going on in public finances in terms of reporting mechanisms. I think we've made substantial progress on that and more needs to be done.

However, the other factor that does play into this is the fact that the overseeing umbrella body that folks look to for advice on this, PSAAB, hasn't completed all its efforts on what it thinks the standards are—certainly in terms of how it addresses operating and in terms of public accounts going to an accrual basis, yes, but in terms of how it deals with the issues of capital and deals with some other issues, they still haven't provided any real advice.

If you want to make a recommendation that says the Minister of Finance should continue to provide more detailed financial information in the budget, I can support that recommendation because I think that's what the Finance minister has been doing year after year after year and has given a strong commitment to do that, but I take strong objection to some of the comments and claims that have been made that the Minister of Finance is thumbing his nose at the Provincial Auditor.

**Mrs Caplan:** Could I suggest a wording that might be acceptable to you?

**The Chair:** We have Mr Wiseman and then Ms Caplan and then Mr Johnson.

**Mr Wiseman:** I just wanted to make one comment on one of the things that Ms Caplan has said and that is about the books. In my riding—and I have been out and about quite a bit—I think I have only had one person talk to me about the accounting process that is currently being debated here, but I have had a huge number of people talk to me about the fact that there was no balanced budget in 1990. If you want to talk about what has contributed to the cynicism of political debate in this country, that one single factor comes up time and time again.

**Mrs Caplan:** And 1989-90 was fully balanced, according to the Provincial Auditor.

**Mr Wiseman:** No, it wasn't. Not under the accrual basis. Under the accrual basis the deficit was \$1 billion out.

*Interjection.*

**The Chair:** Ms Caplan, you'll have an opportunity to respond. Mr Wiseman, please continue.

**Mrs Caplan:** He is not being factual.

**The Chair:** Ms Caplan, you will be able to point that out when you have your opportunity to speak. Mr Wiseman, please continue.

**Mr Wiseman:** The fact of the matter is that when I go around my riding and talk to people, and it doesn't matter what political stripe they belong to, they all point to the fact that the claim was made that the budget was balanced in 1990 and in fact it was way out. That is one of the single most ingrained attitudes and items that the public has.

I think it's just a little bit insulting to assume that the public can be fooled like that. They know what was going on. They knew what was going on in 1990. They had a sense and they reacted to it. I would agree with my colleague Mr Sutherland and say let's give the public a little bit more credit than what it's been given here. Let's make sure that when we talk about what leads to cynicism, we don't forget about the so-called balanced budget of 1990.

**The Acting Chair (Mr Wayne Lessard):** Ms Caplan was next on the list, I guess.

**Mrs Caplan:** I'll yield to Mr Phillips.

**The Acting Chair:** All right.

**Mr Carr:** I think that's Congress.

**Mr Gerry Phillips (Scarborough-Agincourt):** That's right. The congressperson from Oriole.

Just a comment on the last point: Actually, the Provincial Auditor performs many useful functions. When the government came in, the new NDP government, one of the things it wanted to look at was, how in the world did it happen that when the election was called there was supposed to be a surplus and when all the smoke cleared several months later there was a \$3-billion deficit? Like, what happened? So they had the Provincial Auditor look at it, and I appreciate that, because the auditor is independent. I think the people in Ontario have some confidence in the auditor. So he looked at it, and I'd be happy to provide any of you, as I think I may already have done, with his report.

He said several interesting things in there. One thing he said—and this was in 1991, the Provincial Auditor's report—the first thing he said was that there's been only one balanced budget in the last 20 years in the province of Ontario, and that was the year ending March 31, 1990.

**Mr Wiseman:** On a cash basis.

**Mr Phillips:** This using the auditor's recommendations.

*Interjections.*

**Mr Phillips:** No, it's exactly what the Provincial



Auditor said. Then the second thing the Provincial Auditor said was: "What happened? Why did there end up a \$3-billion deficit?" He said: "Listen. When the budget was prepared," and I'm paraphrasing here, but it's pretty accurate, "it was reasonable to expect there would be a surplus."

Three things happened. One is, revenue dropped by \$1.1 billion over what was estimated, and that's about 2% of revenue. I think most business people or most people in their own personal lives, you go through a recession, those things happen, about 2% of revenue.

Then he said, "The second thing is, expenses went up by roughly \$1 billion," mainly social assistance, according to the Provincial Auditor.

Then the third thing was that the new government chose to write three things off that weren't due that fiscal year, and that's common. Any new government comes in, it does that. Any person who takes over a new business, they often do that. They wrote off a \$200-million teachers' pension payment that was due the following year, moved it up a year. The second thing was they wrote off a loan that was due to the Urban Transportation Development Corp for \$400 million and wrote off all of SkyDome for \$300 million, \$320 million, which was smart. It's good politics to do that, because it allows you to get that all written off, and then SkyDome was subsequently resold for I think \$140 million, \$150 million.

The reason I go through all of that is, obviously lots of people ask me the same question. How in the world could you have gone from a surplus heading into the election to a \$3-billion deficit? I say, here's what the auditor said.

As I think most people know, I have a lot of respect for the Minister of Finance, Mr Laughren, who when asked in the House, "Were people not being straight with you?" said, "No, the ministry officials at the time gave the people of the day their best advice, and it was expected at the time there would be a surplus." Laughren said nobody was lying, that it was just the expectation going in, and the auditor confirmed that, that there was supposed to be a surplus.

I wanted to get that on the record, Mr Chairman.

1540

**Mr David Johnson:** I'm not sure exactly why we get into these debates about what's happened in the past, but the—

**Mr Wiseman:** Are you still a rookie?

**Mr David Johnson:** Still a rookie. But it does irritate me a bit when you hear different pieces of information coming from different angles. So the simplest thing is just to ask the staff to give you the information, and presumably you can trust the information they give, and we did ask that the ministry staff prepare the deficit as it would have been reported on an accrual basis, and they did go back for some period of time.

In 1993-94, of course, we all realized that the reported deficit in the budget, the planning document, was \$9.3 billion, but the auditor said it should be \$10.8 billion, and I guess that's the way it's now reported. Going back to 1992, it was \$12.4 billion. It should have been reported,

on an accrual basis, at \$12.9 billion.

Now, the year in question, I don't know whether it was 1989 or 1990—

**Mr Sutherland:** It was 1989-90.

**Mr David Johnson:** It was 1989-90. So this is the year that supposedly has either a surplus or a zero deficit and, in actual fact, on an accrual basis, there is a deficit of \$1.1 billion according to the—

**Mr Wiseman:** That was supposed to be the \$90-million-surplus year?

**Mr David Johnson:** Well, 1989-90, I believe, was reported in the planning documents as essentially being a zero deficit year, but in actual fact, had the accrual system been used, as is being recommended here today, there would have been a deficit, according to the Ministry of Finance, of \$1.1 billion. So I don't know how one says that there was no deficit in 1989, certainly not on an accrual basis at any rate. So I don't know. Does that put that one to rest or not?

*Interjections.*

**The Chair:** Order. Every member will have an opportunity to speak to the issue.

**Mr David Johnson:** It says right here that in actual fact, every year, unfortunately for the taxpayers of the province of Ontario—I guess I'm looking at NDP years, I'm certainly looking at Liberal years and I guess I'm looking at the last Progressive Conservative year, and if it went before that I'd be looking at other Progressive Conservative years—there's been a deficit each and every year. There has been no year when there has been no deficit, so I don't know why we keep arguing that—

**Mr Wiseman:** They keep saying they balanced the budget.

**Mr David Johnson:** —but if it's reported on the basis that some of us are suggesting, an accrual basis, it's clear there's been a deficit of at least \$1 billion and more each and every year for the last any number of years. Having said that, and I guess clarified that better, until the next speaker—

*Interjections.*

**Mr David Johnson:** Sure. I still don't quite understand. Yes, it was in my question, so if you've got a copy of the answers to my question—

**Mrs Haslam:** No, no, there's a chart somewhere.

**Mr David Johnson:** It may have been included somewhere else too, but I found it in the package of the questions that I brought.

**The Chair:** Every member got a copy of that chart.

**Mr David Johnson:** Yes, that's what I would have anticipated, Mr Chair. I still don't quite understand, and unfortunately Mr Sutherland has left, why the government doesn't do this. Yes, there's information. We have a planning document on a modified cash basis, and here it is right here. It's the Ontario budget and it's got a lot of pages to it. It's got probably over 100 pages to it, 125 pages to it, and it's chock-full of facts and figures. If one leafs here and leafs there etc, one can find, I suppose, all of the information if you've got a computer and if you've got months and months of time to do it.

But why not? I mean, the auditor—I'm saying the obvious here, I guess—is highly respected in the province of Ontario. It's an independent body; he has been appointed to fulfil a very important role. His advice we seek and we respect very deeply. What is the penalty to be paid for respecting his advice on this matter? Why not do what he's suggesting?

Now, I understand there's a little bit of a political penalty because the deficits that come about on the basis of an accrual accounting are higher than those on a modified basis, so I can understand that and maybe this would be an awkward year to do it, but why not at least commit to doing it in the future, after the election sort of thing, if that's the only impediment to doing it? Why not set everything straight so the public accounts and the budget can be compared so that we get the true accounting that the auditor thinks is so important to the people of the province of Ontario and with which I fully agree? Why not do that? Why are we so stubborn? Why do we say: "Sure, all the information's here. Put in more information. Instead of 125 pages, have 150 pages or something"? Well, that's not really the point. The point is that it should be easy for the members of this Legislature and easy for the people of the province of Ontario to get a true reading on the bottom line. That is most difficult in this planning document, this budget, on the present basis.

I would highly endorse a motion that would ask the Minister of Finance again to shift the budget to an accrual basis, as the auditor has recommended. If another government member's going to speak to this, please tell me what is the penalty for doing this? Not sort of why bother, but is it costly to do it, does it create a lot of difficulties? Is it the problem with comparing perhaps the 1995 budget with the 1994 budget? Is that what is the big penalty to be paid? What precisely is the problem? If there isn't a major problem, then I would strongly recommend that the matter be reconsidered and follow the advice of the auditor.

**Mr Kwinter:** I don't want to belabour this thing, but I really want to put into the record something I think is quite important, to me anyway. I find that the government members are literally—and I say this with all due respect—speaking out of both sides of their mouth. They have a different story depending on what the issue is. When they talk about their particular budget and the reason why they are not adhering to the recommendations of the auditor, they say that this is a planning document, that it is not the financial record or the accounts of this, it's a planning document, and as a result it is not under the purview of the auditor and it is being done for that reason. Let us accept that argument.

We have Mr Wiseman talking about how everywhere he goes people talk about the Liberal government's 1990 budget. Let me put some of the facts on the table. First of all, when that budget was tabled, it was, as he said, a planning document. It was a planning document that said, "Over the next 12 months this is what we estimate our revenues and expenditures are going to be," and this was on the basis of the best advice that was given to us by the officials in the Ministry of Finance.

You can say, "Oh well, that's fine," but you already make that argument when you consider that the present government not only has never ever met its target, it has taken the debt of the province of Ontario and more than doubled it.

The other thing that I think they conveniently forget—and if there is one little bit of information that I'd like to leave you with, it's this—is that in the course of that planning document time frame, which was from April 1, 1990, to March 31, 1991, when you take a look at the people responsible for that planning period, the government that is in power today was there for six months. They were there October, November, December, January, February, March, and for a good part of September. In fact, they had custody of the store for the six months that they're condemning the previous government for doing.

They made decisions. They could have made them either way. What they did, and I don't blame them—as my colleague Mr Phillips said, it was good politics. "Let's tie them with everything we can." But don't forget, and I hope viewers will not forget, that during that period, six months, one half of that fiscal period, you had custody of the store. You had the ability to do things and make things happen, and you chose to do them in such a way that you've got take half the responsibility. To fluff it all off and say, "Look at what you guys did," makes no sense, and I say that any fairminded person would look at it and say, "Give me a break."

I'd love to hear a response on that one.

**Mr Jamison:** The whole question, and it's been made clear by the parliamentary assistant to the Minister of Finance, is that there will be a comparison in the budget of the two systems. The system has been in use for 25 years in budget preparation. We have done what the Provincial Auditor has asked us to do. The Treasurer has indicated very clearly that there will be a comparison between the two methods of accounting and that will come out very clearly in the budget itself, so I don't know what the hoopla is about, really. Moving from one system to another in reporting terms is a difficult situation to do, but we've been able to do that on the actual books of the province, and that's what the auditor wanted to do. I really believe that the parliamentary assistant to the Minister of Finance has indicated clearly that there will be that comparison in the budget as to the two methods of accounting.

1550

I want to make a comment, because I believe that we can dwell on this forever and a day about who did what and what happened. I think the people of Ontario are smart enough to realize that a government sitting with 95 seats in this Legislature, halfway through a mandate that they'd asked for definitely from the people of Ontario, a clear mandate—calling an election at that time, people now, even today, understand that you knew this economy was in for a real slide. I guess the problem is that none of you ever told the people of Ontario that, and the election results were partly due to really not being clear on the issue of why you called an election that early, with that many members in the House.

The only other question I have is, when the auditor



examined the way in which the deficit figures went in that early time, from a plus \$90 million to a negative \$3 billion—and it's really a question directly to Mr Phillips—was that on the cash accrual basis? On which basis was that figure arrived at, that \$3 billion? Because again, there has been a certain way of accounting in this province that's taken place for some 25 years. The auditor has asked us to move on the books of the province—the books, not the budget—and the Finance minister, when asked about the budget, said he would do a real comparison on the two ways of accounting.

That's basically what I have to say, because I think this debate on this particular issue is one that—being so close to an election, all of us are hoping to exercise that question as much as possible. I have to put it very clearly that that's what I see here today and maybe that's what gives us politicians less than admired stature time and time again.

**Mr Phillips:** To continue the debate on how we prepared the budget, just to comment on something Mr Jamison said, actually I went back and looked at the pre-budget report of the finance and economic affairs committee before the 1990 budget. For people viewing this, we prepare a report that we submit to the Legislature. I went back and looked at that report prepared by this committee—different people but by this committee—and to answer your question, actually the NDP caucus, Mr Rae and the NDP caucus at the time, said in their comments—as usual there was a minority report from the two opposition parties, and I'm paraphrasing here, but I'd be happy to provide it for you—that the Liberal government members are reacting to a predicted economic downturn by adopting, I think he used the term “neo-Conservative politics” or something like that.

The point is that at that pre-budget hearing it was predicted there was an economic downturn and the Liberal members, the then government members, were saying: “Listen, there's an economic downturn coming. This budget must reflect that.” The NDP caucus at the time pointed that out and said, “We reject that approach.” So you may want to look at that, just because I think there's a feeling that somehow or other only the Liberal members knew there was an economic downturn coming and didn't tell anybody. It actually was part of the whole backdrop of the pre-budget hearings that year.

Just to comment on why we've been pushing for the auditor's recommendations, this is now I think the third straight year, if I'm not mistaken, maybe the fourth year, that this committee has put into its report that we should be adopting the auditor's recommendations.

**Mr Sutherland:** On public accounts.

**Mr Phillips:** Again I went back—I don't have it in front of me—and looked and at least the last two—

**Mr Sutherland:** On public accounts.

**Mr Phillips:** Here's the problem: Finally, for the 1993-94 budget—that's two budgets ago—the auditor's recommendations were accommodated, but they were accommodated six months after the end of the fiscal year, 18 months after the budget was presented. So the public gets a budget in April or May and then sees the real

numbers 18 months later. That took a lot of work, and Mr Sutherland probably knows better than I do how much work it took the ministry officials to go through and change the whole accounting system and get the books all set up properly. No doubt they had to move expenditures from one account to another and account for them in a different way. But all that work took place at some expense, probably some considerable expense, if I'm not mistaken.

Then the same work has to take place for the 1994-95 budget, the one that's just ending in another 31 days, I guess now, and I can only assume and hope that the books are being kept in a way that reflects the auditor's recommendations so that when the auditor gets at the books that close March 31, 1995, he and his team will be able to do their work to audit the statements and provide their comments on them.

It seems really odd to me that the ministry officials are going back and keeping the public accounts, their books, in the old-fashioned way, the pre-auditor's way, and it seems to me we must be spending an awful lot of money keeping two sets of books: the one the auditor will need when the books close and the one that presumably the government's using to put together its budgets. I'd love to know how much that's costing us.

That's one of the reasons we pushed this. It makes no sense for all of those officials to be keeping these two sets of numbers some way or other. If the Minister of Finance is going to put the reconciliation in the budget, presumably all the work's been done. So I'm having real difficulty in knowing why all of the work continues to go on to keep the books on two bases.

If the numbers are all being calculated in a way because they're going to have to be presented in some little table in the budget, if the accounts are being kept in a way that presumably provides continuity—they must be keeping the public accounts in exactly the same way in 1994-95 and plan for 1995-96 as they did when the books finally closed in 1993-94—then it seems logical to me that it would be very easy to present the budget on the basis of the auditor's recommendations.

The political challenge for the government, of course, is that the way the auditor indicates the numbers would come out means the deficit would be somewhere around maybe \$2 billion higher than using the old system. That's why we keep pushing it.

As I say, this isn't new. Most of you have been around here now probably three or four years. I think this is at least the third straight year, maybe the fourth year, that we've—the third straight year we've raised exactly the same issue.

**1600**

It's a question of credibility. As a matter of fact, when you look at the government financial documents that are prepared for the financial markets, everything has to be footnoted, saying, “Well, that number there is kept on one basis and that number there is kept on another basis,” and it hurts, without doubt, our credibility in the financial community. They can figure it out just because this is stuff they work in all the time.

It seems to me that first for our credibility, secondly in terms of pure out-and-out cost savings of eliminating once and for all these two sets of books and thirdly, frankly—

**Mrs Haslam:** They're not two sets of books.

**Mr Phillips:** Well, I know technically—people may not have heard the comment, "But they're not two sets of books." What one of the government members is indicating is the budget is not the books of the province. That's quite a technical argument.

**Mr Sutherland:** The auditor said that himself.

**Mr Phillips:** The public believe that the budget reflects the financial numbers of the province. They would be quite surprised if we were to say, "Well, you should be aware that they're about \$2 billion out from the numbers that we will get in the audited statement because this is a planning document that's done in a different way than the books are kept." Technically the budget is not the books of the province, but from the public's perspective it is the—everybody says it's the single most important, but it's the most important financial document that the public and the Legislature see.

The final point I'd make is the one again that the Provincial Auditor made, which is that the people who deal and make money by understanding the finances of the province have the resources to know the real numbers, so they're not fooled; it's the ones who don't have that wherewithal and the resources that are, namely, the public. I think the Legislature by now has gotten on to the number and can add it up pretty quickly.

I would hope that we could all see our way clear to say that for cost-saving reasons and for full disclosure reasons and for consistency reasons, this budget should be prepared and presented on the basis of the auditor's recommendations and that it should contain a 1994-95 reconciliation on the same basis.

**The Chair:** Mr Wiseman, did you—

**Mr Wiseman:** I think I'll pass. I was going to go after Mr Kwinter on some of his observations that were incorrect but I decided not to.

**Mrs Caplan:** He's absolutely right.

**Mr Wiseman:** I just changed my mind.

I'd like to take just an opportunity to point out that in 1990 I read this article, in about mid-July 1990, in the newspaper that was talking about the so-called balanced budget of the Liberal government of the day. Underneath it there was an article about how the housing starts had fallen off in July 1990 and that the pressure had finally eased in that area and the housing starts had dropped by a considerable amount. But they also talked about it with respect to the amount of taxes that would not be transferred to the province and then, lo and behold, the election was called and away we went.

My opponent was going around saying that the budget was going to be balanced and everything was fine and I said: "No, you're wrong. You can't possibly be right. There's at least a \$750-million shortfall alone in some of the transfers that had been coming in through housing starts. If that's the problem there, then there have got to be other problems somewhere else." So I was already

predicting and arguing that there was no way the budget could be balanced or that it was in balance prior to the election of September 1990.

So when you talk about that \$3 billion, there were things that we did in January 1991; one of them was to curb spending of all government offices that had not been spent.

*Interjection.*

**Mr Wiseman:** I'm talking about the 1990-91 budget that you said we have half ownership of. What I'm saying is that a large part of that deficit had already been accumulated and then we did take actions to prevent it from ballooning, but it was quite difficult given that nothing had been done prior to that and that during the election period also nothing was able to be done. The fact of the matter is that we didn't take over until October—or was it November? No, October—and still had to find out how things ran around here.

I just want to point out that most of the deficit's accumulation—and I think we were pretty quick learners to be able to freeze all budgets of ministries and prevent it from going—

**Mrs Caplan:** Yes, \$10 billion a year later.

**Mr Wiseman:** Well, Elinor, you're talking about \$10 billion. I remember the speech that Sean Conway, your colleague, made on the floor of the Legislature saying, and I can remember the phrase he used, that to get the deficit under \$7 billion—

**Mr Sutherland:** It would have been \$7 billion—

**Mr Wiseman:** Easy. Even if you had been elected, it would have been \$7 billion. To do otherwise, there would have been "blood all over the floor." I have to point that out, that Sean Conway, your colleague, made that speech and it's in Hansard.

**Mrs Caplan:** Year after year, \$10 billion.

**Mr Wiseman:** Maybe the viewers would be interested in—

**Mrs Caplan:** Do you have a 1-800 number?

**Mrs Haslam:** A 1-800 number, CALL-JIM.

**Mr Wiseman:** I don't have a 1-800 number. But to take a look at 1985 until 1990, in 1985, the revenues of the province of Ontario were somewhere in the neighbourhood of \$25 billion. By 1990, it was \$44 billion.

**Mrs Caplan:** Never enough for you.

**Mr Wiseman:** Each year that those revenues increased, if you hadn't spent the money, you would have balanced it over the previous year. So I think you need to take a look at that comment, because I don't agree with it and I'm prepared to argue it.

*Interjections.*

**The Chair:** Order, please. Mr Kwinter has indicated he wants to make some further comments. I'd like to remind all the committee members that we have now for over an hour dealt with the recommendation of Mr Kwinter, which we are still dealing with.

**Mr Wiseman:** Mr Chair, I have a recommendation I'd like to add to the recommendations, if we could get to it.



**The Chair:** Mr Kwinter, if you would please start your comments.

**Mr Kwinter:** If I could just get the committee back to where we started with my recommendation, the basis of my recommendation is that the budget reflect the system the government has adopted on how it reports the operating expenditures and revenues of this province and that the budget reflect the same accrual system so that when people take a look at what the projections are in this so-called working planning document, they have a basis of knowing.

My major concern is that notwithstanding that I've heard members say both numbers are going to be in the budget, when the Treasurer stands up—and I'm prepared to guarantee it right now—he will declare to the people of Ontario that the deficit of Ontario in the next fiscal period that we are in will be a number based on the modified cash system. He will not be saying, "I should tell you it will be this if we use this system, it will be that if we use the other system." He won't say that. He is going to report a deficit that is going to be based on a system that the government itself has changed. With all due respect to my colleagues across the room, you can stay here from now till next year and tell me it doesn't matter, and I'm saying it does.

Again, I'm saying that I think we have an obligation to make sure the numbers that are presented in the budget are numbers that reflect the accounting system that is currently in place in Ontario. I don't see why that is such a complicated concept to grasp. It is quite simple.

I find it very strange that when we had officials appear before us at our committee and I said to them, "When 12, 15, 18 months down the road you appear at public accounts, can you tell me now that if all of your projections are right, all your assumptions are right, the numbers that have been presented in your documents to us by the Minister of Finance are going to be the numbers you are going to be reporting to public accounts?" they said, "No, those will not be the numbers."

1610

If in February you know that the numbers are wrong—well, I shouldn't say wrong—if you know the number is not going to be the number that you're going to be reporting to public accounts, why don't you come clean and tell the people of Ontario, "This is the number," not "Wait until 15 months from now and we'll give you the real number"? That is my concern.

I'm not trying to blame anyone or say, "You did this" or "You did that." I'm just saying it seems to be such a simple concept. All we're saying is, "Tell us the number that eventually will be the number that everybody will see historically." I don't see that as being a difficult thing to agree to or to comprehend. I rest my case.

**Mrs Caplan:** Could I just add one small point to that? It's an add-on. In making that case, the parliamentary assistant has said that the comparison will be there. It's my view that if you can have a comparison, then in fact you can present the budget in the way in which the Provincial Auditor has suggested you do it and end the confusion.

The fact that you have acknowledged that you're going to do a comparison tells me that it is possible to present the budget in the way in which the Provincial Auditor has not only suggested but recommended very strongly when he appeared before this committee. You can do it. I can't understand why you wouldn't do it when you can do it and the Provincial Auditor has told you that you should do it.

**The Chair:** I believe the question at this point in time is, do we have consensus with respect to Mr Kwinter's recommendation?

**Mr Kwinter:** Did I hear someone was going to provide some additional clause to it?

**Mrs Haslam:** On other things, if we get off these.

**Mr Kwinter:** Oh, I'm sorry. I misunderstood.

**Mrs Haslam:** There are other issues that need to be—

**Mr Kwinter:** I understood there were no more other issues from that side.

**Mr Wiseman:** Well, that's from them. I've got one.

**The Chair:** At this point in time, I'd like to get a fuller understanding of whether we have consensus with respect to this recommendation or not. I presume we don't. I see all the government members shaking their heads no. It's not a motion so we don't need to vote on it unless it's put in that form.

**Mrs Caplan:** It's a motion.

**Mr Kwinter:** I said that I moved the recommendation. I'm sorry. I thought I did.

**The Chair:** Okay. I apologize, Mr Kwinter. Could you just repeat your motion one more time for the committee? Then we will vote on your motion.

**Mr Kwinter:** My motion is that the committee recommend to the government that the budget reflect a consistent approach to how the financial affairs of this province are presented during the budget and that the accrual system that has been adopted by the government be the basis for the budget projections for the next fiscal year.

**The Chair:** The motion has just been stated and I think is clearly understood.

**Mrs Caplan:** Actually, I would just suggest—it's a friendly amendment—that the recommendation be to the government that it accept the advice of the Provincial Auditor and present its budget in a manner which is consistent with the presentation of public accounts.

**The Chair:** Everyone has heard the amendment. We have two votes now. One is on the amendment. All those in favour of the amendment? All those opposed? The amendment is defeated.

On the original motion, all those in favour of the original motion? All those opposed? That's defeated.

That means we can now move on to further recommendations.

**Mr Phillips:** I'm sorry, Mr Chair. Is there any direction then on what we are going to say about the auditor in the report? Does the government just want to ignore it?

**Mr Sutherland:** Mr Chair, in my original comments

I did put forward a suggestion that if we wanted to make a recommendation to the effect that we encourage the Minister of Finance to continue his efforts in providing more detailed financial information in the budget, I'm certainly happy to support a recommendation to that effect.

**Mr Phillips:** Can we work apple pie in or anything like that?

**Mrs Caplan:** Motherhood.

**Mrs Haslam:** Motherhood.

**Mr Phillips:** I wouldn't say that.

**Mrs Caplan:** I would.

**The Chair:** Order.

**Mrs Caplan:** Fatherhood.

**The Chair:** Is this a motion?

**Mr Sutherland:** I'm just putting it forward as—

**The Chair:** For discussion.

**Mr Sutherland:** Okay, I'll move it. Why not? I'll move it.

**Mrs Caplan:** Well, that's a tough one, boy, I can tell you.

**Mr Wiseman:** What am I voting on?

**Mrs Haslam:** More information.

**Mrs Caplan:** Who would object to that? Is anybody going to object to that?

**Mr Sutherland:** The motion is that the Minister of Finance continue his efforts to provide more detailed financial information in the budget.

**Mrs Caplan:** Give me a break.

**Mrs Haslam:** We are.

**The Chair:** Everyone has heard the motion. Do we have a consensus with respect to that?

*Interjections.*

**The Chair:** That's very good to hear. So then that recommendation is accepted by all committee members. Any further recommendations?

**Mr Sutherland:** Actually there was one more I wanted to come back to, and again I'm not sure whether this one kind of ties into what Mr Kwinter said, but the environmental industries association, I believe it was, had some recommendations. It just related to bringing new technology on stream and a quicker process. I'm trying to decide whether it should be one that goes to the Minister of Finance as a budget issue or whether it then becomes just an overall general regulatory issue and may be covered by one of the other ones. But I think in terms of the growth of green industries in the province of Ontario, whatever we can do to further support and enhance that is a good idea.

**The Chair:** Further discussion?

**Mr Kwinter:** Are you bringing that forward as a recommendation?

**Mr Sutherland:** I would like to bring forward some type of recommendation that would be consistent with what they were putting forward.

**Mr Kwinter:** If I could comment, we've already addressed similar situations where Ms Haslam was

talking about the cultural industries and we decided not to do it, and I would suggest that in your recommendation 4, which was that the government examine new ways of encouraging new research and development, in the broad sense that covers all areas. The minute you start singling out the one, as I say, that's the will of the committee, but we've already discussed the idea that we didn't want to single out ones because that would automatically mean we'd leave others out.

**Mr Sutherland:** That's fine. I'll accept that.

**Mr Carr:** I want to talk very briefly on taxes. I won't get into detail and I don't want to be confrontational, because as you know, we've offered a reduction program with which I don't think this committee will agree. But I think we may get agreement from this committee, from what we heard about the taxes and so on, that we can make a recommendation to the Minister of Finance that he not increase any taxes in the budget. I'm wondering if that would fly with the government members.

I'd like to start off and even expand it and say—and the reason I say this is because we're going to put in tax cuts which we propose in our plan but I know won't go. I would like to also include that it will not increase any taxes or fees, but that may create some problems. As a compromise, I would look for the guidance of the parliamentary assistant that this committee—and if we want to do it in the form of a motion, and I don't know if I can put the wording as a recommendation the bare minimum that the Minister of Finance not increase any taxes or fees in the upcoming budget. But I would be prepared to compromise if the government can't live with the fees. So I'll turn it over to the parliamentary assistant and see if we can get some consensus.

**Mr Sutherland:** Rather than saying no tax increases at all, what I would prefer is if we put it forward that any tax changes be done in a revenue-neutral way, in terms that it might be beneficial to do some tax changes but that the overall amount of revenue that the government is expected to collect shouldn't be increasing. I think that still allows the Finance minister some flexibility to respond to some of our other recommendations that they may want to do.

There may be some tax incentives he wants to do to encourage research and development as one of our recommendations, but obviously we still have that goal of reducing the deficit, and there may be some sense that they might want to make some other changes to make the tax system fairer. As we know, every year there are always those one or two items that we don't hear a lot about but that maybe the ministry has had complaints about adjusting or changing that can impact, so if we can word it in the sense of, "Tax changes should be done in a revenue-neutral manner."

1620

**Mr Carr:** If I could be helpful then, we could just say, "Recognizing the fact that the people of Ontario feel that there's no"—how should I put this? I'll look for guidance again for our legislative research to put it in other terms. "Recognizing the fact that the people of Ontario have reached the tax saturation point, this committee recommends to the government that we not



increase the total revenue of taxes," or words to that effect. Could we do it that way? Is that what you're looking at doing or not?

**Mr Sutherland:** I don't think Mr Carr meant this, but he said, "not increase the total revenue of taxes." The point is, hopefully, if the economy is picking up, we are going to increase the revenue from existing taxes. It's just a matter of working out some language here, but I think when we say "revenue-neutral" that's usually the terminology that implies you do not want any more overall tax dollars but you may make some shifts.

**Mr Carr:** I'd have no problem with that although, as you know, the problem we've got is that our revenue doesn't just come from taxes.

**Mr Sutherland:** Yes.

**Mr Carr:** Actually, Gerry and I were just talking about that, how people don't realize there are the fees and so on. Can we expand it then and say—and what you're saying, I understand there can be some shifts—that the government won't increase any—however it wants to be worded—more revenue from the people of the province of Ontario, or whatever.

**Mr Sutherland:** I guess I would want to stick with the recommendation "that the committee recommends any tax changes be done in a revenue-neutral fashion" and leave it at that.

**Mr Carr:** Okay, let's turn it over to legislative research and see what she's come up with.

**Ms Campbell:** Incorporating what both Mr Carr and Mr Sutherland have just said, "Recognizing the people of Ontario have reached a tax saturation point, the committee recommends that any tax or fee changes should be made in a revenue-neutral way."

**Mr Carr:** That's good.

**Mr Sutherland:** I'm not keen on this preamble because I understand that some portion of the Ontario population has reached a tax saturation point. I'm not convinced that everybody has reached their tax saturation point.

**Mr Carr:** What would you suggest?

**Mr Sutherland:** I'd prefer to leave out the preamble and just, again, come back to, "The committee recommends that any changes in taxes be done in a revenue-neutral manner."

**Mr Carr:** Holy smokes. I started off, I got it watered down, but I guess it's better than nothing.

**Ms Campbell:** So you're not including fee changes in the recommendations?

**Mr Sutherland:** No.

**Ms Campbell:** It's solely tax changes?

**Mr Sutherland:** Yes.

**Mr Carr:** It's really watered down, then.

**Mr Kwinter:** I was going to ask a question about the fees because she had said "fees" and he had said just "taxes."

**The Chair:** Ms Campbell, would you like to, just for the benefit of all the committee members and especially the Chair, indicate what this recommendation will say?

**Ms Campbell:** "The committee recommends that any tax changes be made in a revenue-neutral way."

**The Chair:** That's very simple and straightforward.

**Mr Carr:** I just have one quick comment. I again just wanted to say that we will be putting together what we propose in terms of the tax reductions and the reason for that. I don't want to get into the details, but this is a pretty good compromise and, quite frankly, I think the Minister of Finance has already said that when he came here. I think that statement will be very powerful coming from the committee, and hopefully he will take it into consideration. There is a bit of a compromise. It got watered down a little bit but it's certainly better than nothing.

**Mr Kwinter:** I have a slight, little problem and that is that when you hear that recommendation, it says that if any tax changes are, whatever, "it should be done in a revenue-neutral way." That taxes will come down is not very likely, but it's possible. I would hate to be in a position where there's a recommendation that says if the taxes come down one place, you raise them somewhere else to make it revenue-neutral.

**Mr Carr:** Let's say "increases."

**Mr Sutherland:** If you want to expand on that—if we can figure out some wording that isn't trying to imply that—yes, you're right. I guess the way it's worded does imply that if one comes down, some others have to go up, and we don't want to recommend that that has to occur.

**The Chair:** I think the point needs to be understood as well that if the economy grows as significantly as it's suggested it will, then the province will undoubtedly receive more revenue through taxation by its job creation.

**Mr Kwinter:** The point on that is, no one is saying that there is a cap on the amount of money you can get out of taxes. Really, the intent of the recommendation, as I understand it, and Mr Carr can correct me, is that there are to be no new taxes, and if they are new taxes, those taxes shall be revenue-neutral. My only feeling is that as long as it's the increase is revenue-neutral but the decrease isn't. Is that—

**Mr Sutherland:** Yes. I just don't know how to word that. My sense is, and maybe this is part of the problem of us being caught up in our own lingo and the lingo that people talk about, tax changes being revenue-neutral, in other words, if you make changes, you're not increasing your overall take of taxes.

**The Chair:** I think it's necessary that the—

**Mr Sutherland:** Is it better to add what you've said as an explanation just after the recommendation rather than trying to work on the specific wording of the recommendation? Would that be a better approach, just to add in that comment of what the committee means by revenue-neutral?

**The Chair:** What's very important, I think, here is that before we leave today Ms Campbell understands what it is that—

**Mr Kwinter:** Well, that's what I was going to say. I'm in Ms Campbell's hands. Perhaps she can tell me whether she has an understanding of what it is we're

doing and whether she can put that into language that will accommodate what we want to do.

**Ms Campbell:** Perhaps I could read what I've interpreted as your last recommendation. "Any new tax increases should be implemented in a revenue-neutral way."

**Mr Carr:** No, that isn't right.

**Mrs Haslam:** That's an oxymoron.

**Mr Carr:** Yes, and I didn't want to give the Minister of Finance any indication that we wanted any increases, because we don't. Maybe it can't be worked out then, I guess.

**The Chair:** If I can be helpful—maybe I can—there may be tax changes, but the outcome of any tax changes should be that they are revenue-neutral.

**Mr Kwinter:** That creates the same problem. You can reduce taxes and they say, "Well, we're going to raise them somewhere else so it's revenue-neutral."

**The Chair:** But isn't that what we're saying?

**Mrs Haslam:** No.

**Mr Sutherland:** No, no, no. Hang on a minute. If the tax changes, no net increase, okay? Now we've just got to figure out where to put the "decrease," because I don't want to say "no net increase" and then "and decrease" to imply no decrease. But if you put that wording in there, you should come up with something that way, right? "No net increase, but a decrease."

**The Chair:** I have a sense we all know what we mean but we can't get the language to articulate it.

**Mr Kwinter:** It may be a little clumsy, but a recommendation that any new taxes shall not increase the overall tax level, period. Then that takes care of those things. Instead of saying revenue-neutral, it takes care of the situation where you get a reverse onus: Because the taxes go down, you then are forced to put them up somewhere else.

**The Chair:** I think Mr Carr's original intention has been compromised.

**Mr Carr:** Yes. If it gets into increases, then I think we've lost the whole thing. If we can't work it out, which we don't seem to be able to, I'd just rather not say anything, because I don't want to get into giving the Minister of Finance any indication whatsoever of increasing any taxes. I think if we do that and word it like that, it would come out almost the exact opposite of what I want. I just don't think we can do it.

1630

**Mr Kwinter:** I think the problem is that the Minister of Finance should have the flexibility to reallocate taxes. I don't think anyone quarrels with that. I think what we might do is remove the word "increases." Just say "Any new taxes." So we're not talking about increasing, but "Any new taxes shall have the effect of being revenue-neutral."

**Mr Wiseman:** "Any reallocation of taxes should be revenue-neutral."

**Mr Kwinter:** That's fine too, yes.

**Mr Sutherland:** "Any reallocation"—that's a better word.

**The Chair:** That very simple statement will resolve this?

**Mr Kwinter:** I don't know. Is that—

*Interjections.*

**Mr Kwinter:** Yes? Okay.

**The Chair:** Hooray from the Chair.

**Mr Wiseman:** I guess I should have looked up from my article earlier.

**The Chair:** I presume then we have a consensus with respect to that statement?

**Mr Sutherland:** Yes.

**The Chair:** That's very good. Thank you, Mr Carr. Any further recommendations?

**Mr Wiseman:** Yes, I have an issue that I'd like to throw out on the table at this late hour. The Canadian Federation of Independent Business has written a recommendation to the federal finance and economic affairs committee and I'd like to quote it, because it sets the basis of two recommendations that I'd like to make:

"There are those who have attempted to shift the focus off the access to financing problem by saying that the most important problems for small business are taxes and regulations. There is no doubt that the problems related to high taxes are a serious issue for small firms in this country. However, to suggest that taxation, regulation and paperwork issues are more critical than financing issues is misleading. No doubt most small firms are frustrated by the waste of productive time caused by the endless regulations, forms and inspections they must endure. These problems, however, pale in terms of intensity to any financing problems that firms may face. One is a matter of lost time, the other is a matter of a firm's survival."

The point I'd like to make here is that if we've made a recommendation earlier that jobs are the key issue, and most of us would recognize that the small business community is the driver of small jobs creation, they need to have access to capital and it's my experience in my riding that this is very difficult for them to come by.

I would like to make a recommendation that the Finance minister take steps to improve and increase the accessibility of capital to small businesses. I'm talking about an issue that came up in my riding where a person set up a business, was getting the business, but couldn't get financing at the bank, couldn't get rolling credit and was having a huge problem in the banks trying to get this. There doesn't seem to be a very speedy or helpful mechanism to new businesses that have not been in business for a period of time to get started and we need to address that as a problem, because obviously the banks aren't going to do it.

The second recommendation I'd like to make is that the government of Ontario create an ombudsman to deal with specific problems created by small firms and businesses trying to get credit at banks or having their credit lines and their mortgages withdrawn.

*Interjection.*

**Mr Wiseman:** They don't have an ombudsman right now.



**The Chair:** Thank you for that.

**Mr Wiseman:** An independent ombudsman, not one that—

**Mr Sutherland:** I'd like to support Mr Wiseman's first recommendation, maybe worded in the form that the government consider developing new mechanisms that will assist small business in accessing capital, something to that effect. I think Mr Wiseman is quite right in pointing out that issue and very serious problem.

Regarding his second recommendation: While I think I agree with the sentiments he's expressing, because he's saying the banks, I really think that we just can't—we'd have no authority to do it because banks are unfortunately, or fortunately, federally regulated. Something like that would need to be set up by the federal government in terms of dealing with that issue, but I certainly would like to echo strong support for the intent of his first recommendation and think it's a good one to have included.

**Mr Phillips:** I don't have a problem with the first one either. Probably the government would say it's doing a lot in the area, but somehow or other it's not seeming to sink in. We did, as we all do, a task force and went around the province talking about jobs, and I think access to financing, particularly among small and medium-sized businesses, was probably the biggest issue. There were other ones that were close to it, but it probably was the biggest issue. So I don't personally have a problem with the first one.

The second one is probably the last thing the public wants us spending money on, more ombudspople and other people to watch over other people. I think they'd probably rather have us saying to the banks—even though we don't have direct control over them, they do listen—as our caucus has done, “We would urge you in the strongest possible terms to work towards helping small and medium-sized businesses to have access to capital.”

In fact, the banks would argue right now that they've put a big focus on it the last two or three years, and certainly there appears to be some truth in that. I think every bank has really focused on the small business market, not completely successfully yet. They would argue they're doing it for two reasons. One is the obvious one and that is, there's a lot of anger out there among small and medium-sized businesses. The second one is, if you're in the banking business and you don't have a very strong small and medium-sized business portfolio, you're not in the right area, because that's the growth area. That's where they've got to be.

They're doing it for both of those reasons. Certainly from our view we would continue to encourage them to do that.

As I said, I don't personally have a big problem with the first recommendation. The second one I'd rather accomplish through the normal channels.

**The Chair:** It would appear to me that we have a consensus on Mr Wiseman's—

**Mr Carr:** I wonder if I could ask the legislative researcher how we're going to word that. I'm just unclear on how it's going to be worded. Do you know?

**The Chair:** There are two recommendations and I believe that's the first one. You want two—

**Mr Carr:** Yes.

**Ms Campbell:** My understanding of Mr Wiseman's recommendation was that the Minister of Finance take steps to improve and increase access to capital by small businesses.

**Mr Carr:** And number two?

**Ms Campbell:** The second was that the government develop new methodologies to help small businesses access capital.

**Mr Sutherland:** The first one is Mr Wiseman's wording. The second one is the different wording that I had proposed on the same intent.

**Ms Campbell:** Mr Wiseman's second was that the government create an independent ombudsman to deal with the specific problems of small businesses.

**Mr Wiseman:** Did I say “the government”?

**Mrs Caplan:** Yes, you did.

**Mr Wiseman:** I'm not sure it has to be the government, but I think that some kind of mechanism be available to resolve disputes that arise between large corporations and small business people. The large corporations have the advantage. They have a battery of lawyers that can run things out and bankrupt small business people, and there needs to be some independent arbiter who can come in and settle and solve the problem.

I think that something has to be done about this as an issue because it's becoming much more prevalent. I'm getting more complaints about this kind of uneven heavy-handedness on the part of the financial institutions, with the small businesses not having any kind of clout or any way of defending themselves in the marketplace.

I think we need to seriously try and figure out some way of developing some arbiter and some dispute mechanism. I'm open for suggestions on where we go with this, but I would like a recommendation to the Finance minister to say that this is a major problem and that we need to work on it. If you don't want to go with the idea of an ombudsman, maybe we can change the wording to say that this is a serious issue and some mechanism for dispute resolution needs to be devised.

1640

**Mr Carr:** I just am not in favour of setting up the ombudsman; it sounds like a great idea. I look at the province of Ontario and the great theory behind setting it up here, which was to oversee what happens with the government and so on. What has happened with that, of course, is that it's become backlogged and everybody's frustrated with that as well. I don't know how many cases you would be getting involved in doing if you had a dispute like that.

If the government's going to get involved in transactions between the private sector and businesses, I just don't think it's workable. First, it would be impossible to have it so that if somebody disagreed—for example, went to the bank and wanted to get a loan and wasn't given a loan, that somehow they could go to the ombudsman to see if that ombudsman could intervene would be crazy.

Second, I don't think the numbers would be that great. Third, the power you'd have to give to that ombuds-person to then get involved and make a decision that was binding on banks, it just couldn't work.

**Mr David Johnson:** I just found it interesting to catch a little bit last evening on the CBC, I think it was, of the reaction of I think four or five different groups to the budget, and from the east coast they had two businesswomen. I don't know if people saw that report.

**Mr Sutherland:** I saw it.

**Mr David Johnson:** I guess Kimble saw it. The point was that we had two business people, a small business making pottery, and it was very interesting to hear their comments. I guess they had received some assistance in the past in terms of setting up this business, which was growing by what, 30% or 40% a year?

**Mr Sutherland:** I can't recall the details.

**Mr David Johnson:** It was growing by leaps and bounds. They were exporting. They said they looked at a map of North America and saw how close they were to Boston vis-à-vis where Toronto is, and they're exporting to the United States and Boston and in that area and doing a rip-roaring business. But their point of view, without a doubt, was very clear, that they wanted government to get out of the business of grants, "Lower the taxes, make the taxes competitive and then leave us alone."

Here were two small business ladies, running this organization, doing a fabulous job, creating wealth—

**Mr Wiseman:** They wouldn't have created it without the banks giving them money.

**Mr David Johnson:** I'm telling you what their point of view was. That's your point of view.

**Mr Wiseman:** That was their point of view.

**Mr David Johnson:** Their point of view was—and this is clear if you heard the program; this is precisely what they stated—that they want government to get out of the business of grants, but simply to have a low tax structure which would allow them to be competitive.

I think that's a very common message in the business community. We can fiddle around with ombudsmen, we can fiddle around with grants in some areas and maybe grants in other areas, but the taxpayers and governments do not have nearly enough money, nor will they ever have enough money, to be able to subsidize businesses.

It's interesting what's going to happen with Ontario Bus Industries in Mississauga, where the provincial government has loaned some, what, about \$67 million into that—

**Mr Carr:** I wish we knew.

**Mr Kwinter:** And they own it.

**Mr David Johnson:** —and now we own it, yes.

**Mr Sutherland:** That's what we forgot to do. We should ask Hazel to run it.

**Mr David Johnson:** Now the Ontario government owns it and there are liabilities of another \$60 million or \$70 million, apparently, so the total bill to the taxpayers is in excess of \$100 million if all the liabilities come

home to roost. What's been gained out of this? I think there are—

**Mr Jamison:** I seem to recall the same argument on Algoma.

**Mr David Johnson:** —some 700 jobs in this bus industry plant and there are now about 100 people, perhaps, who are left. There's no plan to keep it going. That's the problem that's faced when governments start to get into the grant business. It's taxpayers' money. That was exactly the point of view the two women had on the CBC last night, that moneys tend to be frittered away and lost, and why their view was that the money should not be given out, "Keep the taxes low," undoubtedly eliminate regulations.

In Ontario we hear back from many small businesses about the employer health tax, and to the credit of this government there was an initiative in the last budget on the employer health tax, so all new jobs that are created are not subject to the—

**Mr Sutherland:** Who implemented the employer health tax?

**Mr David Johnson:** That's what I'm saying—oh, who implemented it in the first place? Well, who did? Did it have anything to do with my friends in the Liberal Party?

**Mr Sutherland:** The folks who are straightforward about everything.

**Mr David Johnson:** What you're trying to say is the Liberal Party, but you just can't get it out. The Liberal Party implemented that. But to the credit of the NDP, it did go a partial way there to encourage jobs, to reduce the employer health tax. I think what we need to do is go a number of steps further.

If you want to create jobs and if you want to help small business, which I think is the whole nub of this conversation, then those are the things they will tell you to do: lower the payroll taxes, the employer health tax, the workers' compensation premiums, Ontario Hydro, any component of their business—that's not a payroll tax, but it's an important component of their business—property taxes, that sort of thing, and clear out the regulations and let them get on with their business.

That's really, from my perspective and the perspective of the Progressive Conservative Party, the way we should be headed, that's where we should be focusing all our energies, instead of fiddling around with ombudsmen and things like that.

**The Chair:** Do you support Mr Wiseman's recommendations 1 and 2? I just wasn't clear.

**Mr David Johnson:** Unfortunately, I was pulled away because of TTC announcements this afternoon and extra moneys for extra lines and that sort of thing. Is Mr Wiseman's recommendation a loan or is it a grant or what?

**Mr Wiseman:** No. If I could clarify, what I'm trying to do with the recommendation is to point out that businesses can't even get to the point of complaining about those things if they can't get initial financing to start the business.



**Mr David Johnson:** Are you talking about a loan or a grant?

**Mr Wiseman:** I didn't say either one. There might be more innovative ways of doing it other than through government, but what I'm asking in the resolution or the recommendation is that the ministry look at trying to develop a way so that startup companies and small companies can have access to capital, plain and simple. It doesn't necessarily have to be a government initiative; it could be that the government broker some kind of an agreement with banks or trust companies or whatever in order to have some kind of loosening up of the rules and regulations so that companies can at least get started and have access to capital.

**Mr David Johnson:** If private sector funds can be available, then obviously I'm all in favour of that.

**Mr Wiseman:** But a lot of the companies that I'm talking about can't even get started to the point where they can complain about these other things, and that's the group I'm interested in.

**Mr David Johnson:** But if we're talking about another system of government involvement and more government money, some way or another, out of the pockets of the taxpayers, it won't work.

**The Chair:** That wasn't what the recommendation was.

**Mr David Johnson:** As long as I can take your word for that—

**Mr Kwinter:** I would certainly support the first recommendation. On the second one, I mean, we've had a fair amount of discussion. It seemed to me—and I stand to be corrected—that there was a proposal on the second recommendation that there be an Ombudsman and a dispute settlement mechanism of some sort to adjudicate these things. I would not support that, and I wouldn't support it for a simple reason: There is a dispute settlement mechanism available. It's called the courts. If there is a situation that requires judicial adjudication, that is available.

To set up something where in a free market economy people make decisions based on whatever their criteria are and to suddenly have some independent source out there saying to a private sector entity, "You have made the wrong decision and we want to sit down with you and show you the error of your ways," would be one of the fastest ways of saying to people, "Don't do business in Ontario, because someone out there, Big Brother, is going to second-guess all of your decisions." Who needs it? I would suggest that may sound like a wonderful idea, but in a practical and a very, very strong economic sense, it would not be a good move, in my opinion.

1650

**The Chair:** If the Chair has listened carefully, and I think I have, I seem to get the sense that there is a consensus on the first recommendation made by Mr Wiseman but not on the second. Is that what I'm hearing? I see most of the heads of the committee members nodding yes.

**Mr Phillips:** You have to listen to that carefully.

**The Chair:** Let the record show that Mr Wiseman's

first recommendation has received consensus from the committee members but his second recommendation has not. I think the research officer can work with that information. Am I correct? Okay.

Any further recommendations before the committee this afternoon?

**Mr Phillips:** This might be the last time we all meet together as a committee, mightn't it, until the election?

**The Chair:** As a committee, yes.

**Mr Phillips:** I might just say, Mr Chair, I appreciate the work you've done. I think, all things considered, we've worked relatively well together. We'll be back in the Legislature, but I've a suspicion this committee might not meet again as a committee.

**Mrs Caplan:** I also think the committee has been very well served, if I may, by the research support. I want particularly to thank Elaine Campbell. Also, the clerk and Hansard have done a fine job for the committee.

**The Chair:** Ms Campbell would like to just clarify a couple of things before we proceed.

**Ms Campbell:** I'd just like to read through the recommendations:

(1) The government should maintain job creation as its number one priority.

(2) The Minister of Finance continue his efforts to reduce the deficit.

**Mr Sutherland:** If I can just say, as a wording proposal, I think all of them can be worded "the government" to do them, because really that's what the committee is recommending.

**Ms Campbell:** (3) The government continue its efforts to reduce regulation, red tape and paper burden through the continued implementation of the Clearing the Path project and the promotion of unified reporting.

**Mr Carr:** On a point of order, Mr Chair: I think we wanted that out.

**The Chair:** Yes, that's right, the mention of Clearing the Path, and that was agreed to.

**Mr Carr:** And the continuing.

**The Chair:** No, not the whole line, just the Clearing the Path part.

**Ms Campbell:** Could I just repeat that?

**The Chair:** Yes, please, for clarification.

**Ms Campbell:** "The government continue its efforts to reduce regulation, red tape and paper burden." End of recommendation.

(4) The government consider new mechanisms to encourage increased investment in research and development.

**Mr Sutherland:** Could I just have one word added, "innovation," as well? I think if you go back again to Fraser Mustard's presentation, that's one of the words.

**Mrs Caplan:** We need that in there, innovation being important.

**Ms Campbell:** (5) The government establish an advisory committee made up of public, broader public

and private sector representatives who would provide input to government decisions on capital expenditures.

(6) The government continue its efforts to eliminate duplication and waste and its efforts to encourage productivity and the timely and efficient delivery of services.

(7) The Minister of Finance continue his efforts to provide more detailed information in the budget.

**Mr Phillips:** "Fine effort" or just "efforts"? I'm just kidding.

**Ms Campbell:** (8) Any reallocation of taxes should be revenue-neutral.

(9) The Minister of Finance take steps to improve and increase access to capital by small businesses.

**The Chair:** That concludes the recommendations of consensus before this committee.

**Mr Phillips:** Pretty hard-hitting.

**The Chair:** We have some housekeeping business to take care of.

**Interjection:** It would be interesting to see a Liberal minority report in writing. They may have to take a stand on that.

**The Chair:** Order, please. We have a motion.

**Mr Sutherland:** I move that upon final approval by the subcommittee, the report be sent for translation and printing; that a copy be forwarded to the minister at the same time as the report is sent for translation, and that the Chair table the report when the final printed document is received with the Clerk of the House if the

Legislature has not resumed or in the Legislature if it is sitting when the document is received.

**The Chair:** Mr Sutherland has presented a motion before the committee. All those in favour of Mr Sutherland's motion? Opposed? Carried.

I want to remind the members of the subcommittee that we will be having a conference call at 11 am on Thursday, March 9, to reaffirm our agreement to the document we've just prepared.

**Mr Phillips:** Do we still have to have, if we're preparing it, our minority report in on Monday?

**The Chair:** Monday by 4 pm.

**Mrs Caplan:** Monday, March 6.

**The Chair:** Monday, March 6, 4 pm, dissenting opinions, Mr Phillips, must be in to Lynn Mellor's office.

**Mr Phillips:** I didn't know, this being a little later than we thought, whether that would be—

**The Chair:** Our dissenting opinions will be going for translation, so they will be in the process that we have set up, and although this will be a little later than we had planned, it is still workable, as I understand it.

**Mr Phillips:** Good.

**The Chair:** I would like to thank all the committee members for their cooperation and the research officer, clerk, Hansard and technicians for being so helpful in getting through this process. Thank you very much. This committee stands adjourned until the call of the Chair.

*The committee adjourned at 1656.*











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### STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

**\*Chair / Président:** Johnson, Paul R. (Prince Edward-Lennox-South Hastings/  
Prince Edward-Lennox-Hastings-Sud ND)

**\*Vice-Chair / Vice-Président:** Wiseman, Jim (Durham West/-Ouest ND)

\*Abel, Donald (Wentworth North/-Nord ND)

\*Caplan, Elinor (Oriole L)

\*Carr, Gary (Oakville South/-Sud PC)

\*Haslam, Karen (Perth ND)

\*Jamison, Norm (Norfolk ND)

\*Johnson, David (Don Mills PC)

\*Kwinter, Monte (Wilson Heights L)

\*Lessard, Wayne (Windsor-Walkerville ND)

\*Phillips, Gerry (Scarborough-Agincourt L)

\*Sutherland, Kimble (Oxford ND)

*\*In attendance / présents*

**Clerk / Greffière:** Mellor, Lynn

**Staff / Personnel:** Campbell, Elaine, research officer, Legislative Research Service













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